

Take "Aways"

Ways not to spend that retirement plan distribution

MILLIONS of working Americans have, from time to time, left their current jobs—and had a chance to take their retirement savings with them. Statistics suggest that, if you are younger, or have a smaller account balance, you are more likely to request a cashout of those retirement savings. Unfortunately, once you have cashed out, you not only take money from your retirement savings, you also set in motion a number of potentially unexpected and undesirable consequences.

Here are some things to consider—and some ways not to spend that retirement plan distribution.

How large your distribution is: The larger your distribution, the more options you have—and the greater the impact of taxes and penalties on your decision.

When you will need the money/your current age: The sooner you need the money, whether due to age or financial circumstances, the fewer options you have—and you may care less about the impact of taxes.

How much taxes you will have to pay (and when): You will have to pay regular income taxes on the part of your distribution that has not been taxed already—employer contributions, your pre-tax contributions, and earnings. In fact, your employer is required to hold back 20% of your distribution check (and forward it to the Internal Revenue Service) as a partial payment of the taxes you will owe. Additionally, you also may have to pay a 10% penalty if you are younger than age 59 1/2.

What your current plan allows: A growing number of programs allow you to keep your retirement savings account invested in your current employer's plan, even if you no longer work there. You also may find that a new employer will allow you to "roll" your current retirement savings distribution into your new retirement plan.

YOUR OPTIONS

1 Leave it (in your existing retirement plan account)

- You do not have to pay taxes until you actually take the money out of the plan.
- You probably get to keep your existing fund options.
- Your account continues to grow on a tax-deferred basis.
- There may be restrictions on your access to this account.
- You cannot add to this account, or combine it with other accounts.
- Your current plan may not allow this option.

2 Take it (to another employer plan)

- You don't have to pay taxes until you actually take the money out of the plan.
- Your account continues to grow on a tax-deferred basis.
- You may be able to borrow against or take an in-service withdrawal of these balances.
- Your new employer plan may not allow this option.
- You cannot roll over company stock (if any).
- You may not have access to funds you like.
- You have to liquidate existing fund options—and choose new options.
- Your balances may be out of the market for a period.

3 Take it (to an IRA)

- You do not have to pay taxes until you actually take the money out of the IRA.
- Your account continues to grow on a tax-deferred basis.
- You may be able to roll it over to another employer plan later on.
- You lose tax benefits of company stock (if any).
- You may not have access to funds you like.
- You may have to pay higher fees than in your retirement account.
- You probably will have to sell your existing funds—and choose new options.
- Your balances may be out of the market for a period.
- You cannot borrow against those balances.

4. Take it (in cash)

- You get the cash now, and can do whatever you want with it.
- You have to pay taxes—20% immediately (could be more when you file taxes).
- You have to pay 10% early withdrawal penalty (if you are younger than 59 1/2).
- You lose tax-deferred savings growth.
- You could spend your hard-earned retirement savings too soon.

5 Buy an annuity

- You avoid 10% premature withdrawal penalty.
- You only have to pay income taxes on amount(s) received.
- You can schedule a series of payments to fit your retirement income needs.
- You have to find/choose the annuity provider.
- Fees can be high (although not always visible).