BUILDING BLOCKS FOR RETIREMENT

Distribution Planning

Distribution Dilemma

As you get closer to your anticipated retirement date, you'll need to decide how you will take your retirement plan benefits. Your plan administrator can give you information about the specific distribution options available in your plan. The income-tax and financial consequences differ for many of the options, so make sure you pay attention to the details before you decide.
Here are some of the more common distribution options.

Lump-sum Payment

You may be able to take your entire account balance as a one-time cash payment. However, you will owe income tax on the taxable portion of your distribution in the year you receive it. Depending on your age, you also may have to pay an additional tax penalty. Taxes and a possible penalty will leave you with less retirement savings to spend and/or reinvest.

Direct IRA Rollover

The trustee of your retirement plan may be able to directly transfer the assets in your account to a traditional individual retirement account (IRA). With a direct transfer, you won't owe income taxes on your savings until you withdraw money from the IRA. Plus, you won't have to pay any penalties.

Indirect IRA Rollover

It also may be possible to have the plan distribution paid to you so you can roll it over to a traditional IRA. You have only 60 days to complete the rollover, and any tax-deferred amounts that aren't rolled over by then are taxable. Keep in mind that your retirement plan is required to withhold 20% of the distribution for federal income tax purposes. Unless you make up the 20% with money from another source within the 60-day time frame, you'll owe tax and possibly a penalty on that amount.

Roth IRA Rollover

You may be able to have your plan assets directly rolled over to a Roth IRA. When you roll over from an employer plan to a Roth IRA, you must report the resulting income for tax purposes. Future withdrawals from the Roth IRA will be tax free after you meet certain tax law requirements.

Annuity

Your plan may offer a variety of annuity options. Generally, an annuity will provide you with regular monthly payments beginning at retirement and continuing for your lifetime and, perhaps, a beneficiary's lifetime. You'll be taxed in the year you receive the annuity payments. Consider an annuity that provides annual adjustments for inflation. Otherwise, inflation may erode the purchasing power of the money you receive over time.

Installment Payments

You may be able to receive monthly, quarterly, semiannual, or annual payments from your plan after you retire. Installment payments may be offered for a fixed time period or for a fixed amount. You may have the option to periodically change the payment amount. Income taxes on installment payments are owed in the year you receive them.

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