

# Retirement Plan Distributions

## **YOUR SAVINGS HABIT IS ABOUT TO PAY OFF**

It's happened every payday for years: You, your employer, or both have put money away in your company's retirement plan.

## **NOW YOU HAVE A DECISION TO MAKE**

You're about to gain control of your retirement plan distribution — and you want to make sure that you manage these funds wisely, so they can help you achieve a comfortable retirement. In fact, most people say they expect their retirement savings plan to be the largest single piece of their retirement resources.

In short, when you accept your retirement plan distribution, you'll need to explore your alternatives carefully. In general, you have two options for your retirement plan distribution — you can keep it working tax deferred toward your retirement or you can pay taxes on the distribution now.

## **KEEP IT WORKING TAX-DEFERRED**

The money in your retirement plan is special. The contributions have been protected from current taxes and the earnings have been tax deferred. If you still have a number of years until retirement, one of the best things you can do is protect your plan's tax status and let it continue to grow for your future.

If you decide to keep your money working tax-deferred toward your retirement, there are generally three ways to do so. You can:

- Roll your distribution into an IRA;
- Roll your distribution over to a new employers plan; or
- Leave your distribution in your former employer's plan

Each choice has some potential benefits, along with some issues that you'll need to consider before making any decisions.

## **TAKE A LUMP SUM DISTRIBUTION**

In the alternative, you may decide to take your retirement plan distribution as a taxable lump sum. If you choose this route, you will receive only 80% of the balance, because your employer must send the other 20% to the IRS to be credited against your taxes.\* Also, if you receive the payment before you are age 59½, you may have to pay an additional 10% penalty tax, unless the distribution is made to an individual after a separation from service and after attainment of age 55. (When you retire, you can also choose to take your distribution as a regular income stream; this decision has tax consequences of its own.)

If you take a lump sum distribution, you can roll over the taxable portion — your pre-tax contributions, employer matching contributions and earnings — along with after-tax contributions, into a new or existing IRA within 60 days of receiving the money. If you want to roll over 100% of your distribution to an IRA, you'll have to find another source of money to replace the 20% of your distribution that will be withheld by your employer. If you just roll over the 80% you received, you'll be taxed and possibly penalized (10%) on the 20% that was withheld and not rolled over.\*

Please review the retirement plan distribution comparison chart on the reverse side to learn about the potential strengths and weaknesses of each distribution option.



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## Retirement Plan Distributions, continued

	Advantages	Considerations
<b>KEEP IT WORKING TAX-DEFERRED</b>		
<b>1. Roll Your Distribution into an IRA</b>	<ul style="list-style-type: none"> <li>■ Amount rolled over will not be taxed until withdrawal, usually at retirement</li> <li>■ Earnings will grow faster by deferring taxes</li> <li>■ Have greater access to more investment options than an employer-sponsored plan</li> <li>■ Access your account 24 hours-a-day via RBC Wealth Management Connect</li> </ul>	<ul style="list-style-type: none"> <li>■ IRA does not offer certain benefits like loan features</li> </ul>
<b>2. Roll Distribution Over to a New Employer's Plan</b>	<ul style="list-style-type: none"> <li>■ Continue to receive tax-deferred savings</li> <li>■ Your current plan may have great investment options and offer a loan feature</li> </ul>	<ul style="list-style-type: none"> <li>■ New plan may offer fewer investment choices</li> <li>■ Previous plan may have more features</li> <li>■ New plan may require "5-year" rule for distributions made to non-spouse beneficiaries.</li> </ul>
<b>3. Leave Distribution in Former Employer's Plan</b>	<ul style="list-style-type: none"> <li>■ Your money can stay with familiar investment choices, whose performance and outlook you may be pleased with</li> </ul>	<ul style="list-style-type: none"> <li>■ You can no longer make contributions to your plan</li> <li>■ You may no longer have access to the loan feature</li> <li>■ Your employer's plan may not offer as many investment opportunities as those available through an IRA</li> <li>■ Your employer's plan may require "5-year" rule for distributions made to non-spouse beneficiaries.</li> </ul>
<b>TAKE A LUMP-SUM DISTRIBUTION</b>		
<b>1. Remove All Funds from Plan</b>	<ul style="list-style-type: none"> <li>■ Available cash</li> </ul>	<ul style="list-style-type: none"> <li>■ If you choose to take one lump sum, you will only receive 80% of the balance, the other 20% goes directly to pay taxes owed.</li> <li>■ If you receive the payment before you are 59½, you may have to pay an additional 10% tax penalty</li> </ul>

\* State tax withholding, if applicable, may vary and may be in addition to the Federal tax withheld.

RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to meet your specific needs.

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