

You May Have an Important Decision to Make...

What to do with your money in an employer-sponsored retirement plan, such as a 401(k) plan. Since these funds were originally intended to help provide financial security during retirement, you need to carefully evaluate which of the following options will best ensure that these assets remain available to contribute to a financially-secure retirement.

Take the Funds

You can withdraw the funds in a lump sum and do what you please with them. This is, however, rarely a good idea unless you need the funds for an emergency. Consider:

- A mandatory 20% federal income tax withholding will be subtracted from the lump sum you receive.
- You may have to pay additional federal (and possibly state) income tax on the lump sum distribution, depending on your tax bracket (and the distribution may put you in a higher bracket).
- Unless one of the exceptions is met, you may also have to pay a 10% premature distribution tax in addition to regular income tax.
- The funds will no longer benefit from the tax-deferred growth of a qualified retirement plan.

Leave the Funds

You can leave the funds in your previous employer's retirement plan, where they will continue to grow on a tax-deferred basis. If you're satisfied with the investment performance/options available, this may be a good alternative. Leaving the funds temporarily while you explore the various options open to you may also be a good alternative. (**Note:** If your vested balance in the retirement plan is \$5,000 or less, you may be required to take a lump-sum distribution.)

Roll the Funds Over

You can take the funds from the plan and roll them over, either to your new employer's retirement plan (assuming the plan accepts rollovers) or to a traditional IRA, where you have more control over investment decisions. This approach offers the advantages of preserving the funds for use in retirement, while enabling them to continue to grow on a tax-deferred basis.

Why Taking a Lump-Sum Distribution May Be a Bad Idea:

While a lump-sum distribution can be tempting, it can also cost you thousands of dollars in taxes, penalties and lost growth opportunities...money that will not be available for future use in retirement.

Please contact my office if you would like additional information on rolling funds over from a previous employer's retirement plan.

The purpose of this newsletter is to provide information of general interest to our clients, potential clients and other professionals. The information provided is general in nature and should not be considered complete information on any product or concept described. For more complete information, please contact me (Office: (913) 227-4224).