THE PROS AND CONS OF AN IRA ROLLOVER

You may not have thought much about it yet, depending on where you are on your career path, but one of these days you will probably have to make some important decisions about the way you will handle the distribution of the funds in your retirement plan. Whether you will be moving to another employer, going into "semi-retirement" with plans to start your *own* business later on, or retiring completely from the workforce, the basic issues will be the same. And you will have a number of options to weigh.

Assuming that your present employer's plan is tax qualified, you may be able to reduce or defer the income taxes that you will ultimately have to pay by making an "eligible rollover distribution." Certain plan distributions, such as distributions made after you reach age 70½ and annuity payments, do not qualify for rollover treatment.

One possible approach is the withdrawal of your plan funds as cash. But if you take a cash distribution, you will owe federal income tax on the funds in the year you receive them. Your retirement plan is required to withhold 20% of the amount paid out to you, which is applied to the tax you owe for the year. When you file your tax return for the year, depending on your total income for the year (including your plan distribution), you may be entitled to a refund, or you may owe more tax. If you are under age 59½ at the time of the distribution, you may be subject to a 10% early withdrawal penalty as well.

A second possible approach is to take the plan distribution in cash — a lump-sum distribution, as above — but then roll the funds over into an individual retirement account (IRA) *within 60 days* of the distribution. If you do this, the plan has to withhold 20% for tax purposes. So, if you wish to transfer 100% of your plan's value into an IRA, you will have to supply the "missing" 20% yourself from other funds. And, if you should miss the 60-day window, or don't replace the 20% that is withheld, the funds *not* rolled into the new IRA will be considered taxable income. Also, the 10% penalty may apply, depending on your age and the applicability of certain other exceptions.

A third possibility — and generally the wisest choice from a tax standpoint — is to arrange for the *direct* transfer of your retirement funds from your employer's plan to an IRA. With this approach, the funds distributed are *not* subject to taxation at the time of the transfer, your plan is *not* required to withhold any funds for taxes, and *no* early withdrawal penalty will apply. Your retirement funds can continue to grow on a tax-deferred basis. And no taxes will be due until you withdraw funds from the IRA at a future date. (There are also other options for rolling over retirement plan funds, including the transfer of funds to another employer's plan.)

You have probably guessed by this time that the "direct transfer" option is, in most cases, the most "tax-wise" approach for a plan distribution. If we can assist you when you're ready to examine the choices available for a plan distribution, don't hesitate to call.