

# BUILDING BLOCKS FOR RETIREMENT

## Distribution Planning

### Understanding Your Retirement Plan Distribution Options

You've probably experienced many changes in your lifetime... Whether you're changing jobs, pursuing other opportunities, or retiring, you now have an important decision to make: What to do with the money you've accumulated in your retirement plan.

No matter what stage of retirement planning you are in, you're probably focused on the things that are currently impacting your life. But decisions you make today about your retirement investments can have a significant impact on how much money you'll have in retirement. Making the right choice is important, not only for your financial future, but because the tax consequences of your choice can be significant.



#### Action Plan

- Understand the different choices available under your retirement program
- Decide which option is best for you
- Take the necessary steps to implement your decision

#### The Easy Solution-Leave Your Account With Pentegra

You enjoy many valuable benefits as a Pentegra customer. And you can continue to do so. By leaving your account with Pentegra, you don't have to take any action-there's no paperwork to complete. This option allows growth potential for your money without your having to pay taxes on it until you take a distribution. You can defer receipt of all or a portion of your account until you turn age 70 1/2. At that time you must begin receiving the minimum distributions required by law. It's easy, convenient, and provides you with greater flexibility and control.

#### Installment Payments

Installment payments can provide a way to maximize your retirement savings to provide comfort and security throughout retirement. An installment payment provides benefit payments based on your accumulated retirement benefit. Installment payments are paid over a period of time based on your life expectancy. Installment payments may be an ideal choice because they relieve you of the worry of spending too much or too little. Like an annuity, an installment payment lets you make long-range plans by providing basic financial security-so you can use personal savings and other income sources for whatever you like, without worrying about using all your retirement income.



### Direct Rollover To An Ira Or Other Qualified Plan

You can elect to rollover your account directly to an IRA or other qualified retirement plan. A direct rollover is the payment of an “eligible rollover distribution” directly to another qualified plan or an IRA. A direct rollover maintains the tax-deferred status of your account which preserves more of your savings. It also eliminates mandatory withholding of federal and state taxes that would apply if the account is paid directly to you. Except for a few special payments listed below, the IRS considers all taxable withdrawals as well as after-tax withdrawals “eligible rollover distributions.”

The following distributions are not eligible for rollover:

- Benefit payments made over a lifetime (such as an annuity)
- Annual installments over 10 years or more
- Hardship distributions
- Required minimum distributions

Be sure to carefully assess any fees that a new plan or IRA institution may charge for account maintenance and investment management.

### Lump Sum Distributions

Your plan may offer a Lump Sum distribution option. Keep in mind that the tax code specifically protects money in retirement plans, deferring taxes until you receive a distribution. Lump sum distributions may leave you exposed to significant tax liabilities.

When deciding what to do with your retirement assets, it's critical to understand the impact of tax implications and penalties. For example, taking a distribution will subject you to federal income tax as well as any applicable state and local income taxes. Tax implications and penalties can quickly eat away at your retirement savings. To avoid any unnecessary taxes and penalties, you can leave your account with Pentegra, where your savings will continue to grow, tax-deferred.

Taking a cash distribution provides you with immediate access to your retirement savings, but there could be costly long-term consequences. Take a look at the example below. As you can see, you may lose a significant portion of your savings by taking a cash distribution. In addition, cash distributions may have implications for your tax bracket. The IRS looks at a cash distribution from a retirement plan as income to the person receiving it. Remember, your tax bracket is determined by how much income you earn. If you take a cash distribution from your retirement plan, you could increase your income level for that calendar year dramatically, putting you in a higher tax bracket. By considering the rollover option, you'll preserve more of your savings and you'll be able to maintain its tax-deferred status.

Retirement savings:	\$10,000
Federal income tax:	\$2,000
Penalty on early withdrawals:	\$1,000
State income tax:	\$500
Amount you receive (after taxes and penalty):	\$6,500

Assumes a federal income tax rate of 20% and state income tax rate of 5%. Your employer will be required to withhold 20% in federal taxes on any pretax cash distribution. This 20% withholding would then be applied toward the \$2,000 owed in federal income taxes. Your situation may vary.

## **Review and Decide**

### **The Easy Solution-Leave Your Account with Pentegra**

- Maintains tax-deferred status
- Provides future flexibility
- Avoids tax implications and penalties
- Offers existing investment options

To leave your 401(k) account with Pentegra, you don't need to take any action. You can continue to manage your account using Pentegra OnLine at [www.pentegra.com](http://www.pentegra.com) or Pentegra by Phone. And if you need help, we're here for you. Just contact the Pentegra Customer Service Center at 866-633-4015 for personal assistance.

### **Choose an Installment Payment**

- Lets you make long-range plans by providing basic financial security
- Avoids negative tax implications and penalties

### **Rollover to an IRA or Other Qualified Retirement Plan**

- Maintains tax-deferred status of the distribution
- Provides future flexibility
- Avoids tax implications and penalties of cashing out the distribution
- Take a Lump Sum Cash Distribution
- Subjects you to immediate tax implications as you must pay taxes on pretax deferrals
- An early withdrawal penalty will apply until you reach age 59, on August 03, 2035

Saving for retirement is more important now than ever before. Take control of the money you've already accumulated and make sure that it continues to work for you and your future.

### **Who Can I Contact for More Information?**

Choosing a retirement benefit payment option is one of the most important decisions you'll have to make. We're here to help you review your options and make this transition easy for you. You can always contact the Pentegra Customer Service Center at 866-633-4015 for personal assistance.

This material is provided solely for informational purposes and does not constitute investment, tax, legal or accounting advice on the matters addressed. Neither Pentegra Services, Inc., its subsidiaries, nor any of their respective employees intend that this material should be relied on as investment advice, which should be sought from a professional advisor. Performance information shown reflects past performance and does not indicate or guarantee future investment results. Current and future results may be lower or higher than those shown. ©2018 Pentegra Retirement Services



701 Westchester Ave, Suite 320E, White Plains, New York, 10604