Taking a distribution – pros and cons

CERF 457 Retirement Savings Plan

When you become eligible for a distribution, you generally have these options[1]:

1. Leave your money in your employer's plan. (This may not be an option; check the terms of your plan.)
2. Roll over to an IRA or another employer plan.[2]
3. Take a distribution.[3]

More detailed information about these options is available on the other side of this page.

An important decision to consider is whether to leave your money in a tax-deferred account until retirement or take it out and pay the income taxes now.

For example, if a 45-year-old participant leaves a balance of $50,000 in a tax-deferred account with a hypothetical 6% average rate of return per year until age 65, that participant could have $165,510 when he or she retires.* While you may have good intentions of investing your retirement money after taking a distribution, there is always the possibility of spending it.

The table above shows the potential growth that could be missed if a participant cashed out all of his or her retirement plan account balance at age 45.

Now let's look at what could happen to that $50,000 if the participant took a full or lump-sum distribution.

A mandatory 20% of the distribution, or $10,000, would be withheld to prepay the federal income tax. However, more or less than 20% may be owed, depending on the participant's specific tax situation. Let's say he or she is in the 25% tax bracket. At tax time, the participant will owe an additional 5%, or $2,500, as illustrated at right.

Potential growth rates compounded annually

AGE	4%	6%
45	$50,000	$50,000
55	$74,542	$90,970
65	$111,129	$165,510

* FOR ILLUSTRATIVE PURPOSES ONLY. This illustration is hypothetical and does not represent the performance of any investment options. It assumes a 4% and 6% annual rate of return and reinvestment of earnings, with no withdrawals. Rates of return may vary. Taxes have not been calculated in this illustration. The illustration does not reflect any charges, expenses or fees that may be associated with your plan. The tax-deferred accumulations shown above would be reduced if these fees had been deducted.

The impact of taxes[1]

Account Balance	$50,000
Federal Income Tax (Mandatory Withholding of 20%)	($10,000)
Federal Income Tax (Due at Tax Time, Additional 5%)	($2,500)
Potential Total (Less Taxes)	$37,500

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EMPOWER RETIREMENT™

Understand the impact of your decision

Option	Tax consequence	Pros	Cons
Leave your money in your employer's plan. (This may not be an option; check the terms of your plan.)	• None until distributed from the plan.	• Money is tax-deferred. • You may be able to access your account balance at any time. • Plan may offer diverse selection of investment options.	• Investment options are limited to those offered by the plan.
Direct rollover to your new employer's plan or an IRA.[2]	• None until distributed from the new plan or IRA.	• Money remains tax-deferred. • Plan or IRA may offer a diverse selection of investment options. • In an IRA and most plans, you control access to your savings. • Loans may be available from your new employer's plan.	• Loans are not available from IRAs. • A 10% early withdrawal federal tax penalty may apply if rolled into an employer's 401(k), 403(b) or 401(a) plan or an IRA and a distribution is taken before age 59½.
Take a distribution.[3]	• A mandatory 20% federal income tax withholding applies directly to distributions taken that could be eligible for rollover. • Distributions are taxed as ordinary income in the year received unless rolled into a new employer's plan or an IRA within 60 days of the distribution.[4]	• Money less tax withholding will be available immediately. • You can still elect to roll over into a new employer's plan or an IRA within 60 days.[4]	• Savings are no longer tax-deferred. • A mandatory 20% federal income tax withholding applies to distributions taken that are eligible for rollover.

For more information, call 877-895-1394 or send an email to Robert.Eastburn@empower-retirement.com.

1 The information in this material is not intended as tax, financial planning or investment advice. Please consult with your financial planner, attorney and/or tax advisor as needed.

2 You are encouraged to discuss rolling money from one account to another with your financial advisor/planner, considering any potential fees and/or limitation of investment options.

3 Withdrawals may be subject to ordinary income tax.

4 If you elect to roll over within 60 days, you will be responsible for replacing the 20% withholding.

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