

## Retirement Plan Distributions

When it comes to receiving the fruits of your labor — the money accumulated in your employer-sponsored retirement plan — you are faced with a few broad options. Should you take the payout as systematic payments, a lifetime annuity, or a lump sum?

### Systematic Withdrawals

Some retirement plans may allow you to take systematic withdrawals: either a fixed dollar amount on a regular schedule, a specific percentage of the account value on a regular schedule, or the total value of the account in equal distributions over a specified period of time.

### The Lifetime Annuity Option

Your retirement plan may allow you to take payouts as a lifetime annuity, which converts your account balance into guaranteed monthly payments based on your life expectancy. If you live longer than expected, the payments continue anyway.

There are several advantages associated with this payout method. It helps you avoid the temptation to spend a significant amount of your assets at one time and the pressure to invest a large sum of money that might not last for the rest of your life. Also, there is no large initial tax bill on your entire nest egg; each monthly payment is taxed incrementally as ordinary income.

If you are married, you may have the option to elect a joint and survivor annuity. This would result in a lower monthly retirement payment than the single annuity option, but your spouse would continue to receive a portion of your retirement income after your death. If you do not elect an annuity with a survivor option, your monthly payments end with your death.

The main disadvantage of the annuity option lies in the potential reduction of spending power over time. Annuity payments are not indexed for inflation. If we experienced a 4% annual inflation rate, the purchasing power of the fixed monthly payment would be halved in 18 years.

### Lump-Sum Distribution

If you elect to take the money from your employer-sponsored retirement plan as a single lump sum, you would receive the entire vested account balance in one payment, which you can invest and use as you see fit. You would retain control of the principal and could use it whenever and however you wish.

Of course, if you choose a lump sum, you will have to pay ordinary income taxes on the total amount of the distribution in one year. A large distribution could easily move you into a higher tax bracket. Another consideration is the 20% withholding rule: Employers issuing a check for a lump-sum distribution are required to withhold 20% toward federal income taxes. Thus, you would receive only 80% of your account balance, not 100%. Distributions taken prior to age 59½ are also subject to a 10% federal income tax penalty.

To avoid some of these problems, you might choose to take a partial lump-sum distribution and roll the balance of the funds directly to an IRA or other qualified retirement plan in order to maintain the tax-deferred status of the funds. An IRA rollover might provide you with more options, not only in how you choose to invest the funds but also in how you access the funds over time.

After you reach age 70½, you generally must begin taking required minimum distributions from traditional IRAs and most employer-sponsored retirement plans. These distributions are taxed as ordinary income.

Before you take any action on retirement plan distributions, it would be prudent to consult with a tax professional regarding your particular situation. Choose carefully, because your decision and the consequences will remain with you for life.

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