Distributions From Qualified Plans

A qualified plan distribution is a payout of an employee's vested account balance from an employer's retirement plan due to: termination of plan, termination of employment, normal retirement age (as indicated in the plan), death, disability, or in-service distributions.

- Generally, a qualified plan distribution is deemed ordinary income and taxed in the year of distribution. Most pre-tax distributions are eligible to be rolled over to an IRA.

- Distributions paid directly to the individual are subject to 20% tax withholding, as a prepayment of taxes due.

- If the individual is less than 59 1/2 years, a 10% penalty will apply. Exceptions to the 10% penalty include: age 55 and separated from service, death, disability, medical expenses, and qualified domestic relationship orders (QDROs).

Withdrawal Options

- *Qualified Joint and Survivor Annuity* — The law requires that the vested account balance be paid to the participant (or the participant's beneficiary in the event of death) in the form of a qualified joint and survivor annuity (QJSA). Most plans allow the participant (and the participant's spouse) to waive out of the QJSA requirement.

- *Cash Distribution* — If an employee elects to receive a cash distribution, the employer is required to withhold 20% of the distribution. The 20% tax is sent to the IRS as pre-payment of taxes due. Any portion of the distribution not rolled over into an IRA may be subject to the 10% early-withdrawal penalty in addition to ordinary income tax.

    – *Special Tax Treatment – Income Averaging* – For total distributions, ten-year averaging often reduces the tax owed because the payments are treated as if they were paid over ten years, even though all taxes are paid in the year of distribution. To qualify for this special tax treatment 1) the individual must have been born before January 1, 1936, 2) the entire account must be distributed, 3) the individual must have been a participant for five years, 4) distribution is due to separation of service, retirement, attainment of age 59 1/2, or disability, and 5) this is the first election for (once-in-a-lifetime) forward averaging.

- *Direct Rollover* — The employee instructs the employer to send his or her assets to an IRA or other qualified plan (if the new employer accepts rollovers). Assets that are rolled over have no tax implications or penalties, unless the assets are directly rolled to a ROTH IRA. In that case, taxes will be due and a penalty may be due if assets from the plan are withheld to pay the tax. Assets grow tax-deferred in the IRA (tax free in a ROTH IRA) and distributions are not required to begin until age 70 1/2 (not from a ROTH IRA.) Distributions from qualified plans, including after-tax contributions, can be rolled into IRAs, qualified plans, 403(b)s, and 457 accounts.

- *Direct Rollover (Conversions) to Roth IRAs* — An employee may instruct the employer to send his or her assets directly to a Roth IRA as a taxable conversion. For information regarding eligibility and taxation, review the Roth IRA Conversion page.

Before making decisions about Lump-Sum Distributions, investors should consult their tax advisor. Stifel does not offer tax advice.

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