HEFFERNAN FINANCIAL SERVICES

Because You're Different

INDEPENDENT INVESTOR

Your Guide to Life Planning

October 2013

Your HFS Team
Heffernan Financial Services
188 Spear Street, Suite 550
San Francisco, CA 94105
800-437-0045
rebeccat@heffgroup.com
www.heffgroupfs.com
CA Insurance Lic# 0I18899

Independent Investor | October 2013

Changing Jobs or Retiring? Don't Forget Your Retirement Savings!

If you're like many Americans, you probably intend to rely on your employer-sponsored retirement plan savings for a significant portion of your retirement income. So when it comes time to make important decisions, such as what to do with the money in your plan when you change jobs or retire, you should be fully aware of your options.

"Distribution" Defined

You may have read about or heard benefits administrators at your workplace refer to retirement plan "distributions." This is just a fancy term used to describe a payout of the money that has accumulated in your retirement savings account. Distributions may include amounts you have contributed and the "vested" portion of any amounts your employer has contributed, in addition to any earnings on those contributions.

Retirement plan participants have several options for managing the money in their account when they change jobs or retire.Depending on your age and goals, each option may carry different tax consequences and investment opportunities. That's why it is important to think through each option carefully before making any decisions.

Typical Distribution Options

Keep money in a former employer's plan. Depending on the plan's rules, you may be able to leave your savings in your former employer's retirement plan whether you are changing jobs or retiring. Retirees -- particularly those who plan to work in some capacity or who can draw on other sources of retirement income -- may want to leave the money where it is and continue to reap the benefits of tax deferral. In addition, if you plan to start your own business when you leave the company, keeping your retirement money in your former employer's plan may help protect your retirement assets from creditors should your new venture run into unforeseeable trouble.

While you will no longer be able to contribute to the plan, you will still have control over how your account is invested. If you are happy with the investment options available through your former employer's plan, this may be a choice worth considering. Of course, keep in mind that minimum distributions must begin after you reach age 70½.[1]

Make a "direct rollover" to another retirement account. You can move your money into another qualified retirement account, such as an individual retirement account (IRA), or, if you're changing jobs, your new employer's retirement savings plan. With a "direct rollover," the money goes directly from your former employer's retirement plan to the IRA or new plan, and you never touch your money. With this method, you continue to defer taxes on the full amount of your plan savings.

If you are about to retire, are between jobs or simply prefer the flexibility and wider assortment of investment choices offered through an IRA, then an IRA rollover may be a better option.

Take a cash distribution. You can choose to have your money paid to you in one lump sum when you retire or change jobs. This action is considered a cash distribution from your former employer's retirement account. The cash payment is subject to a mandatory tax withholding of 20% and possibly a 10% penalty if you were under age 55 at the time you left the company.[2]

Lump-Sum Distributions: Not Always What They Appear to Be

Amount of distribution	$25,000
Amount withheld for federal income taxes	$5,000
(Potential) 10% penalty	$2,500
Additional tax obligation (based on 25% tax bracket)	$1,250
Net Payout	**$16,250**

This hypothetical example has been simplified for illustrative purposes. It is not representative of any specific situation. Your results may vary.

Consider an "indirect rollover." You can avoid paying taxes and any penalties on a cash distribution if you redeposit your retirement plan money within 60 days into an IRA or your new employer's qualified plan. With this strategy, called an indirect rollover, you'll still have to pay the 20% withholding tax out of your own pocket, but the tax will be credited back to you when you file your regular income tax, and any excess amount will be refunded. If you owe more than 20%, you'll need to come up with the additional payment when you file your tax return.

Seek Guidance

It is important to remember that these are complicated choices with lasting implications for your retirement years. Before making any decisions, consider talking to a tax and/or financial advisor who has experience helping people make prudent choices for funding their retirement years.

[1]Distributions will be taxed at then-current rates.

[2]Additional taxes may be due, depending upon an individual's tax bracket.

This article was prepared by S&P Capital IQ Financial Communications and is not intended to provide specific investment advice or recommendations for any individual. Please consult me if you have any questions.

Tracking # 1-205374