

Keep Your Money Working After You Retire

If you're planning to retire soon or have recently done so, you are facing quite a few decisions. If you have a 401(k) or other qualified retirement plan administered by your employer, one of the most important decisions is what to do with the money in your account. You may have a variety of choices. Below are some of the more common options:

Option 1: Take the money in a lump sum.

For most retirees, this is not the best choice. Once you've taken a lump-sum distribution, it is immediately taxable and no longer earning income on a tax-deferred basis. Also, to ensure that your taxes are paid, your employer must withhold 20% from your distribution. And if you're not yet aged 59½, you may also be subject to a 10% penalty.

Option 2: Leave your money in your employer's retirement plan.

If you have more than \$5,000 in your account under your former employer's retirement plan, you can usually leave the money where it is. (Check with your employer.) The downside is that you continue to be limited to the investment choices offered by your ex-employer—or even fewer choices, since some companies have additional restrictions for non-active employees. Also, your employer's 401(k) plan may offer limited flexibility if you want to designate anyone other than your spouse as your beneficiary.

Option 3: Roll your retirement assets into a traditional rollover IRA.

For many people, this option makes the most sense. By having your former employer's retirement plan check payable directly to a new IRA custodian, you avoid the 20% withholding or any penalties. Your assets have the potential to continue to grow on a tax-deferred basis. You also have a wide choice of investment opportunities—you can select the stocks, bonds, mutual funds or other investments that are right for you.

Other Post-Retirement Decisions

Once you've decided where to put your retirement assets, you have to decide how best to invest them. Your financial professional can help you determine how much you will need in current income to live on and how much to put into investments with potential for long-term growth. Remember that if you are 65, your probability of living another 20 or more years is quite high—so you need to plan for the future as well as for the present. If you have taxable sources of income—such as salary from a part-time job or investment income outside of retirement accounts—most financial professionals suggest you use these assets first before withdrawing from your tax-deferred retirement accounts. The longer your tax-deferred assets can grow, the greater your potential return.

You will, however, need to begin taking distributions eventually. The law specifies that you generally must begin taking Required Minimum Distributions (RMD) as of April 1 of the year after you reach age 70½. You will likely need the help of your tax advisor to determine the exact amount of these required distributions, which are based on your life expectancy and, in some cases, those of your beneficiaries.

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Updating your beneficiaries is also an important decision you may need to make, especially if you are rolling over your 401(k). Unless he or she signed a waiver, your spouse is most likely your beneficiary of your 401(k). With an IRA rollover, you may have much broader flexibility about naming your beneficiaries. If your spouse does not need the income to meet current income needs, you may be able to name your children, for example, as beneficiaries. Doing so will reduce your Required Minimum Distributions and allow the money in your IRA to potentially

grow tax-deferred over a longer period of time. Make sure you've filled out your beneficiary forms, and update them as necessary. To pass your IRA to your desired heirs you must specifically name them on the forms—a statement in a will does not override the account documents. You should consult with your tax advisor regarding your particular circumstances before making any decisions.

Contact your financial professional to explore funding options and decide if an IRA rollover is right for you.



This material is not intended as tax or legal advice. You should consult with your personal financial, tax or legal advisor regarding your specific situation before implementing any estate or business strategy.

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