Retirement Plan Distributions: Frequently Asked Questions

Table of Contents

How should I take distributions from my retirement plan?

If your assets are in a tax-favored retirement fund such as a company or Keogh pension or profit-sharing plan (including thrift and savings plans), 401(k), IRA or stock bonus plan, when it comes time to take distributions you have several options:

- Take everything in a lump sum
- Keep the money in the account, with regular distributions or withdrawals on an as-needed basis
- Purchase an annuity with all or part of the funds
- Take a partial withdrawal (leaving the balance for withdrawal later)
- Take a rollover distribution
- A combination of any of the above

Your retirement assets may be distributed in kind-as employer stock, or an annuity or insurance contract. Sometimes certain withdrawal options may be associated with certain retirement plans, for instance, annuities are more common with pension plans. Other types of plan favor the other options, but for the most part most of these options are available for most plans. And more than likely, you'll want to preserve the tax shelter as long as possible by withdrawing no more than you need at any given time.

Timing your withdrawal can be a factor, too. Withdrawals before age 59 ½ risk a tax penalty. At the other end, withdrawals are generally required to start at age 70 ½ or face a tax penalty. The only exceptions are Roth IRAs and non-owner-employees still working beyond that age.

go to top

When is it best to take a lump-sum distribution from my retirement plan?

Your personal needs should decide. You may need a lump sum to buy a retirement home or retirement business. If your employer requires that you take a lump sum distribution, it may be wise to roll it over into an IRA.

go to top

What should I do about my retirement plan assets in my ex-employer's plan if I change jobs?

There are several things you might do depending upon your needs:

1. If you don't need the assets to live on, try to continue the tax shelter and leave the money where it is.
2. Transfer or roll over the assets into your new employer's plan--if that plan allows it (this can be tricky, though).
3. If you've decided to start your own business, set up a Keogh and move the funds there.
4. Roll them over into your IRA.

go to top

Can creditors get at my retirement assets?

In general, employer plans such as your 401(k), IRAs and pension plan funds are protected from general creditors unless you've used these assets as securities against a loan or you are entering into bankruptcy. If this is the case, there's a chance they could be seized, but if the money is in a registered IRA, pension plan, or 401(k), it's more than likely they will be protected in case of bankruptcy (subject to state and federal law of course).

go to top

How will my state tax affect my retirement withdrawals?

Each state is different, but in general, consider the following:

1. While withdrawals are generally taxable in states with income tax, some offer relief for retirement income, up to a specified dollar amount.
2. If your state doesn't allow deductions for Keogh or IRA investments allowed under federal law, these investments and sometimes more may come back tax-free.
3. State tax penalties for early withdrawal (before 59 ½) or inadequate withdrawal (after age 70 ½) are unlikely.

go to top

Can moving to another state when I retire save me state taxes on my retirement plan?

Money from retirement plans, including 401(k)s, IRAs, company pensions and other plans, is taxed according to your residence when you receive it.

If you move from a state with a high income tax, such as New York, to one with little or no income tax (Texas, Nevada and Florida have none), you will indeed save money on state income tax.

However, establishing residence in a new state may take as long as one year; if you retain property in both states, you may owe taxes to both.

go to top