

Rolling Over Your Retirement Assets



Before you receive distributions from your employer's 401(k) or other qualified retirement plans,

you have important tax and investment decisions to make. Because this money will be crucial to your financial security in retirement, Congress has granted you some latitude in deciding when to pay income taxes on it.

For substantial retirement plan distributions, a Rollover IRA can provide an important, tax-advantaged foundation for greater financial security. However, to avoid tax traps, advance planning is essential, and Summit Community Bank can help.

Special rules

A lump sum distribution is the payment, within one year of retirement, of your entire balance in your employer's retirement plan. If you receive a lump sum distribution, it may well be one of the largest sums that you ever will receive in your lifetime, and special care is called for in handling income taxes.

You may want to avoid paying immediate tax on your distribution, deferring income taxes until later in your retirement. To secure income tax deferral, you must arrange to roll your plan distribution into an IRA, as discussed in more detail below. If you decide against setting up a Rollover IRA for your lump sum distribution, your employer is required by law to withhold income tax from your distribution at a 20% tax rate.

You will want to review all your choices and their financial implications with your tax advisor.

The direct solution

Your decision to defer taxes by rolling your plan distribution into an IRA must be followed by action. The next step, which must be taken before you receive the distribution, is to arrange for a direct transfer of your distribution to a Rollover IRA.

You also are permitted to roll qualified plan distributions that are not lump sum distributions into an IRA. For example, if you are to receive 30% of your plan interest and the balance over a period of ten years, the 30% distribution is eligible for rollover.

In general, any qualified plan distribution may be rolled over except:

- returns of after-tax contributions;
- a payment that is part of a series of payments that will last for your life expectancy or ten or more years; or
- required minimum payments made after you reach age 73.

The withholding trap

If you fail to make advance arrangements for a Rollover IRA, you will not lose the privilege entirely. If your qualified plan distribution is paid to you, you will have 60 days in which to roll the money into an IRA. But here is the catch: By law your employer must withhold 20% in income taxes from any plan distribution that is not part of a regular series of payments. Therefore, you will not have the full amount of the distribution available for transfer to your Rollover IRA.

Example: Ted Taxpayer is entitled to a \$200,000 distribution from his employer's retirement plan. If Ted does not arrange a direct rollover to an IRA, his employer will pay him \$160,000 and send \$40,000 to the IRS on his behalf. Ted then may

roll the \$160,000 into an IRA himself. He also may add \$40,000 from his other savings to the rollover to make up for the tax withholding. But he will lose the earnings on the \$40,000 until he receives a tax refund the following year.

To avoid this trap, Ted should make an advance arrangement to have his distribution rolled directly into an IRA.

Withdrawals from your Rollover IRA

All distributions from a Rollover IRA are subject to ordinary income tax. With limited exceptions, withdrawals made before you reach age 59½ are subject to an additional penalty tax of 10%.

When you are older than 59½ but younger than 73, you have complete freedom in making withdrawals. You may take out as much or as little as you need each year. Amounts withdrawn are taxed at ordinary rates; amounts left in incur no current taxation at all. As a practical matter, most retirees who establish a Rollover IRA do not make withdrawals for several years, and so they enjoy the privilege of tax-deferred growth of their retirement assets.

Minimum distributions now made easy

IRA distributions, which are discretionary once the account owner reaches age 59½, become mandatory at age 73. After that age the owner must take a minimum distribution every year. What's the minimum?

IRS has provided one standard table (reproduced on the next page) that will apply in almost all cases. Simply divide the account balance at the end of the previous tax year by the relevant factor in the table, and that's your minimum distribution.

Minimum Distribution Table

Age	Distribution Period (in years)
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9
96	8.4
97	7.8
98	7.3
99	6.8
100	6.4
101	6.0
102	5.6
103	5.2
104	4.9
105	4.6

Table is subject to change.

Source: Internal Revenue Service, Merrill Anderson Company

The table assumes that a beneficiary has been selected who is ten years younger than the IRA owner, an assumption that will be most favorable to the vast majority of taxpayers.

Exception. If the beneficiary is a spouse and more than ten years younger than the IRA owner, the table is not used—the couple's longer joint life expectancy is used instead.

Investing your Rollover IRA

For most individuals a lump sum distribution is the most money that they will ever have in one place at one time. Managing a sum of this size is a serious undertaking. We offer two approaches for managing these important assets when they are placed in a Rollover IRA.

Self-directed accounts. If you feel comfortable making investment decisions on your own, we will simply invest your Rollover IRA per your instructions. We will execute your buy and sell decisions, collect and reinvest dividend and interest income, and provide you with complete records of all activity in your account.

Managed accounts. If you prefer, we stand ready to manage your Rollover IRA on your behalf. One of our investment officers will meet with you to chart an investment strategy with which you are comfortable. Once the plan is created, we will manage your account consistent with the parameters that you have established.

Fees. Our moderate fees are determined by the size of your account and the type of service that we provide, not by the kind of investment that you choose. A trust officer will be happy to provide you with a fee schedule.

To learn more

If you will be receiving a lump sum distribution, call us soon to arrange an appointment. There are both tax and investment issues that you will want to explore thoroughly.

How you handle your lump sum distribution may well be one of the more important financial decisions that you make for the rest of your life. We're here to help.

At Summit Community Bank, we are committed to fostering personal relationships with our clients. Our professional staff has the expertise to provide a personalized solution for you. Our proven investment performance is enhanced by the relationship that we build together. We will listen to your goals, concerns and dreams to create a customized financial plan to benefit you and your loved ones.

We welcome your questions and look forward to working together.

FOR INFORMATION CONTACT:
SUMMIT TRUST AND WEALTH MANAGEMENT



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