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.
- If the individual is less than 59½ years old, a 10% penalty will generally apply. Exceptions to the 10% penalty include: turning age 55 or older in the year of separation of service, death, disability, unreimbursed medical expenses, qualified domestic relationship orders (QDROs), substantially equal periodic payments beginning after separation from service, IRS levy, individuals called to active duty, and the birth or adoption of a child.

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 lump-sum 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 balance must be distributed, 3) the individual must have been a participant for five years, 4) the distribution is due to separation of service, retirement, attainment of age 59½, 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 plan 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. Distributions from qualified plans, including after-tax contributions, can be rolled into IRAs, qualified plans, 403(b)s, and 457(b) 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.
- *Direct Rollover (designated Roth Accounts and voluntary after-tax contributions) to Roth IRAs* — An employee may instruct the employer to send the pre-tax portion of the account to a traditional IRA or t o an employer plan (if plan allows), and the designated Roth or after-tax portion directly to a Roth IRA.

Decisions to roll over or transfer retirement plan or IRA assets should be made with careful consideration of the advantages and disadvantages, including investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and your unique financial needs and retirement planning. Neither Stifel nor Stifel Financial Advisors provide recommendations with respect to rollovers from an employer-sponsored retirement plan. Once you inform your Stifel Financial Advisor that you have chosen to roll your retirement assets to an IRA with Stifel, your individual investment needs can be addressed. You should consult with your tax advisor regarding your particular situation as it pertains to tax matters.

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