

Distribution options from employer retirement plans

If you are at or near retirement, now is the time to explore the various ways to take distributions from your employer's retirement plan. Then again, you may not have to retire to be entitled to receive a distribution from an employer-sponsored plan. For example, you may be eligible for a distribution if you are leaving your company, if your company is terminating its retirement plan, or if you are the beneficiary of a deceased plan participant.

Since a retirement plan distribution could represent the largest sum of money you'll ever receive at one time, it is important to evaluate your options before making any decisions.

Exploring your distribution alternatives

When you take a distribution from an employer's retirement plan, you generally have the opportunity to choose one of the following distribution options:

- **Take a lump-sum distribution**—While this option may not be the most appropriate when planning for the long term, it does provide you with cash if you need it.
 - Your employer, however, will automatically withhold 20% of the taxable portion of your distribution as a pre payment of your federal income taxes. In addition, you may still owe additional federal and state income taxes at your ordinary income tax rates. If you haven't reached age 55 in the year you terminate service with your employer, you may also be subject to an additional 10% early distribution penalty.
 - When all or part of your distribution is comprised of "employer securities" (i.e., stock of your employer which you hold in your company's retirement plan), you may be eligible for special tax treatment on your gain on these shares (the "net unrealized appreciation") while they were held in the plan.
- **Receive installment payments**—Under many retirement plans, you may be able to choose to receive a steady stream of income, called installment payments, instead of a lump-sum distribution. The installment payments may be annuitized, and although the terms and conditions of annuity payments can vary widely, most annuity contracts are structured to either guarantee you will not outlive your retirement savings or to provide payments for a specified period of time. These reliable payments are the major advantage of an annuity payment. The annuity form of distribution, however, has several disadvantages. For example:
 - You generally cannot elect to modify the payment terms should your financial circumstances change, and there is a risk that the purchasing power of your annuity payments may not keep up with inflation.
 - Depending on the terms of the annuity, distributions may cease at your death, meaning that no further benefits would be paid to your heirs, regardless of how much you had received at the time of your death.



- **Roll over a distribution into an IRA**—You can either have your employer directly roll over some or all of the distribution into an IRA, or make an indirect rollover (receiving your distribution in cash, then depositing it into an IRA yourself within 60 days). Since an indirect rollover requires the withholding of money to prepay federal income taxes, a direct rollover would generally be a wiser choice. Among the various benefits of taking a rollover are:
 - The postponement of any federal income tax payment, allowing you to invest more money now
 - The opportunity for faster accumulation of your money over time through tax-deferred growth

Due to the complex nature of special tax treatment options available for lump-sum distributions, we should discuss your options and you should consult with your legal and/or tax advisor(s) before making any final decisions.

Roth IRA rollovers

You are allowed to roll distributions from your employer-sponsored retirement plan directly to a Roth IRA. You will have to pay income tax on the taxable portion of the assets you roll over to the Roth IRA. The Roth IRA offers the advantage of tax free distributions in the future if you qualify.¹

¹ Tax-free distributions are allowed if the assets withdrawn have been held in a Roth IRA for a five "taxable year" period beginning the year for which the first Roth contribution was made and the account holder is at least age 59½ disabled, deceased or making a first-time home purchase (lifetime limit of \$10,000 per taxpayer).

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