# Weighing your 401(k) options at retirement

So you're ready to retire. You've worked hard for many years, and now it's nearly time for you to sit back and enjoy the fruits of your labor. But before you retire, you need to take a careful look at your 401(k). There's a good chance your 401(k) is one of your single largest assets. And the decisions you make about it can have a lasting impact for you and your family.

Of all the issues you have to face upon retirement, taking care of your 401(k) just might be the most important of all. The decisions you make about the proceeds from your 401(k) plan can have a tremendous bearing on how financially secure you are for the rest of your life. We've compiled a list of options you might want to refer to when considering what to do with your 401(k) distribution at retirement — a distribution that could be valued at several hundred thousand dollars or more. Although this is not an all-inclusive list of options, it can get you started down the right path.

**Take your 401(k) distribution in cash**
The possibility of taking the proceeds from your 401(k) distribution in cash when you retire is enticing. Before you have a check for the entire distribution (or even part of it) made out to you, there are a few things you should keep in mind. By having the check made out in your name, you're handing over to the government almost a third of your account. When a distribution is not rolled over directly into an employer retirement plan or IRA — as is the case when it is taken in cash — the employer automatically withholds 20% of the money. If you are younger than age 55, the IRS hits you with an additional 10% penalty.

**Roll your assets into an IRA**
Of all the distribution choices available to you at retirement, rolling over assets to another tax-deferred investment offers the most investment flexibility and the least exposure to taxes and penalties. A rollover is a lump-sum distribution that is "rolled" into, for example, a rollover IRA. To do this, you should request a check for the amount you wish to roll over from your 401(k) and have it made out to the IRA's trustee. Although what you ultimately decide to do will depend on your individual situation, there are some rough guidelines you can follow.

• Traditional IRA – If you need the income immediately at retirement, you can simply roll your 401(k) assets into a rollover IRA. The entire balance can be rolled into a traditional IRA — tax free.

• Roth IRA – Once you've completed the rollover, you can, if you wish, convert the assets to a Roth IRA. You will be required to pay income taxes, but not penalties, on the amount you convert. The Roth IRA has no required minimum distributions and no age at which you must stop contributing and begin taking distributions. In addition, distributions from a Roth IRA are tax free if certain requirements are met.

The key is to roll your assets into an investment or investments that offers a wide variety of choices that meet your financial objectives. These choices can include among others REIT's, stocks, bonds, CD's, annuities, and mutual funds.

**Take 72(t) payments**
Another option for those needing a source of income at retirement is to take 72(t) substantially equal periodic payments. These 72(t) payouts are made to IRA owners under age 59 1⁄2, without penalty, provided the distribution amount is taken for the greater of five years or attainment of age 59 1⁄2. You may elect to receive 72(t) distributions after your assets are in a rollover IRA or a Roth IRA. Withdrawals under the 72T rules will be subject to the account holders current income tax rate.

**Capitalize on net unrealized appreciation**
If your 401(k) plan consists mostly of company stock, there's some good news for you as well. The lower capital gains rate makes the tax breaks available on company stock even more valuable. So, instead of opting for a rollover IRA, you might benefit more from placing the stock in a regular brokerage account and taking advantage of a little-known tax strategy involving net unrealized appreciation (NUA).

**What is NUA?** Very simply, it's the difference between the cost basis of the stock you own (the price per share at which you originally purchased the stock) and the current market price. If there is a substantial difference between the cost basis and the current market price, you might benefit most from this strategy. By placing the stocks from your 401(k) into a brokerage account, you will only have to pay income tax on the cost-basis portion of the value of the stock. The NUA isn't taxed until you sell the stock, when it will be taxed at the 15% long-term capital gains rate (as opposed to an income tax rate that could be as high as 35%).

**Think it through**
Regardless of which option you choose, the key is to think it through and make the decision that's best for you. After all, you've been planning for a long time to have the kind of retirement some people only dream about. If you would like to discuss any of these 401k rollover options please contact John or Matt to schedule an appointment.

For more information contact Tuve Investments at 1-800-373-8883 or visit www.tuveinvestments.com