Good Hands℠ **Retirement**

Manage

Withdrawing Money from Your Retirement Accounts

When you're ready to start enjoying some of the money you've set aside for your retirement years, planning ahead can help you make the most of your savings.

What Are Your Options?

401(k) plans and most other retirement savings plans sponsored by employers typically allow participants to withdraw their vested account balances in a lump sum at retirement. Your plan may provide additional payout options as well. As with a traditional pension, the money distributed from the plan is taxable to you in the year you receive it, except to the extent the distribution is attributable to after-tax contributions or is a qualified distribution from a designated Roth 401(k) or 403(b) account.

"Usually, the longer you can defer taxes, the better because you'll have more money invested."

A Rollover Defers Taxes

You can continue to defer taxes on an eligible distribution from a tax-deferred retirement savings plan by rolling the distribution over into an individual retirement account (IRA). A properly executed IRA rollover delays taxes on your savings and on IRA investment earnings until you take money out of the IRA. Usually, the longer you can defer taxes, the better because you'll have more money invested.

In very limited situations, however, it can be better from a tax viewpoint to receive a plan distribution even though you'll have to pay taxes on the distribution that year. For example, if a lump sum distribution will include appreciated company stock, taking the distribution may be a less taxing alternative because you'll be taxed only on the stock's cost, not its appreciated value. Then, if you realize a gain on a subsequent sale of the stock, you'll pay taxes on the gain at a favorable capital gains tax rate. Rolling the stock into an IRA means you'll lose the benefit of the lower capital gains rate because all taxable distributions from an IRA are taxed at your higher ordinary tax rate.

Required Minimum Distributions

The tax law doesn't let you keep money in tax-deferred accounts forever.* Generally, you must begin taking annual minimum distributions from your accounts by April 1 of the year following the year you turn 70½.**

Allstate®
You're in good hands.
Auto
Home
Life
Retirement

FIN1185C-1

(An employer-sponsored plan may allow you to delay distributions until after you retire if you are still working for the employer that sponsors the plan.)

It's fairly easy to figure out the minimum amount you need to withdraw each year if you have only one retirement plan account or IRA. But it gets complicated when you have accounts through more than one employer or you own multiple IRAs.

In general, the minimum amount you must withdraw each year is figured by dividing your account balance as of December 31 of the prior year by an age-based factor found in an IRS table. If you have money in more than one qualified plan, such as a 401(k), you must take a minimum distribution from each account. When you own multiple IRAs, you figure the minimum distribution separately for each IRA, but you can combine the amounts and take your required distribution from one or more of the IRAs. (Note: Inherited IRAs and retirement plan accounts have their own distribution rules.)

What happens if you don't take money from your retirement accounts when you're supposed to? You could be hit with a 50% penalty on the amount you should have withdrawn but didn't. So, for example, a taxpayer who is required to withdraw $5,000 but fails to do so could be subject to a $2,500 penalty.

* Roth IRAs are not subject to the minimum distribution rules during the owner's lifetime.

* Roth IRAs are not subject to the minimum distribution rules during the owner's lifetime.

** The Worker, Retiree and Employer Recovery Act waives the minimum distribution requirement for the calendar year 2009 only. As a result, if you turn 70½ in 2009, you will not have to take your first distribution by April 1, 2010. The deadline for your first required minimum distribution (for 2010) will be December 31, 2010.

This material is intended for general educational purposes only. Securities offered by Personal Financial Representatives through Allstate Financial Services, LLC (LSA Securities in LA and PA). Registered Broker/Dealer. Member FINRA, SIPC. Main Office: 2920 South 84th Street, Lincoln, NE 68506. (877) 525-5727.

© 2008, 2009 Allstate Insurance Company. Certain content licensed. All rights reserved. allstate.com 2/09

Allstate®
You're in good hands.

Auto
Home
Life
Retirement

FIN1185C-1