

Making It Last a Lifetime

Hypothetical workers Don and Jean Butler, both age 65, are ready to retire. Before they actually do, however, they should weigh the distribution options of their retirement savings plans with a view to making their money last.

A Full Menu

Because the Butlers are older than 59½ and fully vested, they can withdraw all the money in their retirement accounts whenever they wish, subject to the terms of their retirement plans. The downside: Lump-sum distributions are subject to regular income taxes plus federal withholding of 20 percent of the distribution. And having that money readily at hand makes it too easy for the Butlers to run through their savings prematurely. Lucky for them, their retirement plans may have other distribution options.

1. They can leave the money in their plans, keeping in mind that at age 70½, withdrawals must begin; and federal and possibly state income tax withholding applies. This is a sensible choice for the Butlers because fees charged for retirement plan investment choices are usually lower than fees for investments outside of an employer's plan. The plans would need to offer investment choices appropriate for their needs in retirement, however.
2. They can roll their retirement assets into an Individual Retirement Account (IRA). This would allow the Butlers to shift their savings from one tax-deferred account to another without incurring federal or any applicable state withholding. It's an ideal move if they would like to invest in funds or other securities not offered by their employers' plans. IRA required minimum distributions begin at age 70½.
3. They can purchase an annuity that will pay them a steady stream of income during retirement. Annuities are long-term financial products, so the Butlers will want to be sure they understand all the important details about them before purchasing one.

This hypothetical profile is for illustrative purposes only and does not represent any specific investment products or advice. Forecasts and model results are inherently limited and should not be relied upon as an indicator of future performance.

© 2008 SmartMoney. Prepared by SmartMoney Custom Solutions. SmartMoney is a joint publishing venture of Dow Jones & Company, Inc. and Hearst Communications, Inc. All Rights Reserved.

CustomSolutions
FROM SMARTMONEY