Retirement Plan Distributions And The IRA Rollover

For years now, retirement planning advisors have been presenting the virtues of the individual retirement account (IRA) rollover to individuals looking forward to qualified retirement plan distributions. Whether an employee is retiring or moving to a new job, determining the best way to handle a plan distribution is likely to be an important step in the retirement planning process.

There are a number of ways to deal with such distributions, but some are more “taxing” than others. Assuming that your employer’s retirement plan is tax qualified, you can reduce or defer the income taxes that could potentially be owed on the distribution of your retirement funds. A rollover to an IRA is one approach that serves many retirees and job-changers well. If your retirement plan distribution is an “eligible rollover distribution” under the tax law (a number of specific requirements apply), you have various choices for the form of that distribution.

One of your choices is to take your plan distribution in cash. But, if you cash out your retirement money, you will owe federal income tax on the distribution in the year it is made. Your retirement plan is required to withhold 20% of the distribution (that amount is, of course, applied to your tax bill for the year). In addition, if you have not yet reached age 59½ when you cash out, you may be subject to a 10% “early withdrawal penalty.” When you file your tax return, you may be entitled to a refund, or you may owe more tax, depending on your total income for the year, including your plan distribution.

A second potential choice would be taking your plan distribution in cash and then rolling it over into an IRA *yourself*, within 60 days of the distribution. The retirement plan will withhold 20% of the distribution for tax purposes. Thus, if you wish to transfer 100% of the distribution amount to a rollover IRA, you will have to come up with the “missing” 20% on your own, assuming you want to keep *all* of your distribution growing on a tax-deferred basis. However, if you miss the 60-day window, or don’t replace the 20% withheld amount, the funds not rolled over will be considered taxable income in the year the funds are received. In addition, the 10% penalty may also apply, depending on your age and the availability of an applicable exception.

A third option would be a *direct transfer* of your plan distribution from your employer’s plan to an IRA. With this technique, the funds distributed are not subject to taxation at the time of the transfer, and there is no withholding by your plan or any early withdrawal penalty. Your retirement funds continue to grow, uninterrupted, on a tax-deferred basis. And taxes will not be imposed until you withdraw funds from the IRA in the future. There are also other options for the rollover of retirement plan funds, including the transfer of funds to another employer’s plan.

If you wish to continue to defer income tax on your retirement funds, the “direct transfer” approach is likely to be the wisest move. And you should be aware that recent changes in the tax law have made it even easier for individuals to avoid current taxation on retirement plan distributions. If we can be of any help when you look at the various ways you might handle a retirement plan distribution, please visit your local HSBC Branch to speak with an HSBC Securities Financial Advisor or call **1-800-662-3343**.

Securities and annuities are provided by Registered Representatives and Insurance Agents of HSBC Securities (USA) Inc., member NYSE/NASD/SIPC, a registered Futures Commission Merchant, a wholly owned subsidiary of HSBC Markets (USA) Inc., and an indirectly wholly owned subsidiary of HSBC Holdings plc.

Insurance is offered through insurance agents of HSBC Insurance Agency (USA) Inc., a wholly owned subsidiary of HSBC Bank USA, N.A., an affiliate of HSBC National Bank USA, and an indirectly wholly owned subsidiary of HSBC Holdings plc. Products and services may vary by state and are not available in all states.

Insurance, annuities and securities products:

NOT A BANK DEPOSIT OR OBLIGATION OF THE BANK OR ANY OF ITS AFFILIATES	NOT FDIC INSURED	NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY	NOT GUARANTEED BY THE BANK OR ANY OF ITS AFFILIATES	MAY LOSE VALUE