

# SHEET METAL LOCAL 10 SUPPLEMENTAL RETIREMENT FUND

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## **BEFORE YOU TAKE YOUR LUMP-SUM DISTRIBUTION Consider the Important Tax Consequences**

### **You Can Also Save Money by Requesting a Partial Withdrawal**

When you request a distribution from the Supplemental Retirement Fund you will receive a Special Tax Notice from the Fund Office. Please read this Notice carefully and consult your tax adviser before you submit your application, **especially if you elect a Lump-sum Distribution instead of a Rollover Distribution.** For most Lump-sum Distributions, the Fund office is required to withhold part of the distribution for taxes; if you elect a Rollover Distribution, we can roll your **entire balance** into your IRA or Qualified Retirement Plan.

#### **Avoid the 20% Tax Withholding**

The Special Tax Notice explains the details, but the bottom-line is that the Fund Office is required by federal tax laws to withhold 20% of your lump-sum payout unless you rollover your distribution to another qualified plan or a personal IRA. **But the 20% is just a down payment.** You will be required to add the distribution on top of your highest tax bracket; it might even push you into a higher tax bracket. So by the end of the year you could easily owe more than the 20% tax withholding.

**If You Need the Money, Consider a Partial Distribution** - If you need just a portion of your account for current expenses, you can request a one-time partial distribution or an installment payout. Your remaining balance will stay in the Plan and you **avoid the fees and the investment risk of setting-up an account on your own.** You can also roll your account into your IRA and request partial distributions from your IRA as you need the cash. You will still pay the income tax on IRA withdrawals, but you will avoid the 20% withholding and shelter your earnings until you actually need the money. (If you are over 55 and under 59½, consider the excise tax implications of an IRA rollover summarized below.)

#### **Avoid the 10% Excise Tax**

Unfortunately the tax consequences of a Lump-sum Distribution do not stop with the 20% withholding, or even with the additional taxes you may owe at your highest marginal tax bracket. The IRS really wants you to save this money for retirement, so they add **an additional excise tax if you receive the distribution before you reach age 59½.** There are only a few ways to avoid this penalty tax, one is if you spend the distribution on deductible medical expenses (typically those that exceed 7.5% of your taxable income), or if the distribution is made in or after the year you reach age 55 and you have separated from service. One drawback of an IRA rollover is that the age 55 exemption will not apply, and you will have to wait until age 59½ to avoid the excise tax on IRA distributions.

#### **Avoid a Reduction in Your Unemployment Benefits**

In Minnesota a distribution from the Plan may also reduce the amount you are eligible to receive in unemployment benefits. You should check with your State unemployment division before you file for benefits from this Plan.

#### **Consider Keeping Your Account in the Plan**

One of the best ways to preserve your retirement benefit is to keep your account in the Plan. You do not need to request a distribution from the Plan when you retire. If you have more than \$5,000 in your account you can stay in the Plan until you reach 70½. The Trustees will monitor the investments, keep a close eye on fees, and you can avoid the concern of managing your retirement account.

**So think twice before you request a Lump-sum Distribution.** Even if the distribution seems too small to matter, spending 40%+ in taxes is a steep cost for receiving the distribution. **The Trustees recommend a Partial or Rollover Distribution as the best way to preserve the value of your retirement benefit.**