

# Understanding Your Retirement Plan Choices

**MetLife**<sup>®</sup>



*if*

YOU COULD  
CREATE THE  
RETIREMENT OF  
A LIFETIME

lump sum



What you should know about

# retirement plan distributions

If you're thinking about retiring or changing jobs...

you have a major decision to make

For years, you've been accumulating assets for retirement by participating in your employer's 401(k), 403(b) or other retirement plan.

Now that you're about to retire or leave your employer for a new career opportunity or perhaps for retirement, you have an important financial decision to make, possibly the second most important of your life next to buying a home.

**What will you do with the assets in your retirement plan?**

The wrong decision can have a profound effect on your future financial security, while the right one can go a long way toward providing you with the retirement you've been planning for yourself over a lifetime of work.

Fortunately, your MetLife Representative can help you weigh the alternatives available to you, so you can determine which might prove most appropriate, given your specific objectives, risk tolerance and other circumstances.



# Meet Frank

You may want to consider this option if you:

- Are satisfied with the plan's investment options, past performance and service
- Need more time to review other options

## Alternative #1:

### Leave your money in your employer's plan

Frank is 52 years old and has amassed a retirement fund of \$500,000, thanks to the retirement plan in which he has been participating for 25 years. In addition, Frank's aunt recently passed away and left him a legacy that, in combination with his plan assets, will enable him to retire early. Frank has been happy with his company retirement plan and the investment options available. He decides to leave his money with his employer until he is ready to begin receiving it.

One advantage of this option is you don't have to make an immediate decision. If you are satisfied with the plan's investment options, past performance and service, you might simply leave well enough alone, at least for the immediate future.

Before deciding, however, examine the possibility of rolling over your plan assets to an IRA. An IRA may give you more flexibility including the following:

- A wider range of investment options than is available in the plan
- The ability to add new contributions over time—your current plan will not allow you to make additional contributions since you are no longer an employee
- More flexibility in changing investment options and making withdrawals—taxes and penalties may still apply
- Possibly greater flexibility in naming beneficiaries
- The ability to provide your beneficiary with estate planning options—with an IRA, your beneficiary may be able to extend your IRA over his or her lifetime and continue to accumulate assets on a tax-deferred basis

ADVANTAGES	DISADVANTAGES
No decision has to be made currently	You may have to maintain a minimum balance to keep your funds with the employer
No taxes have to be currently paid	You may not be able to add funds to this account
You maintain the same investment options you had while working	You are limited to only the investment options in the plan—an IRA may have a wider variety of investment options including annuities, individual stocks and bonds, mutual funds and bank products
Your retirement plan maintains its account history	Loans are no longer available from the plan since you are no longer actively employed*
You already are familiar with your plan service providers	You may not have flexibility in naming the beneficiary of your choice

\* Loans are not available from an IRA



# Meet Bill

You may want to consider this option if you:

- Need the money for current expenses
- Want to invest money for purposes other than retirement
- Want to pay the taxes now rather than later

## Alternative #2:

### Take your retirement savings in a Lump Sum and Pay Taxes

Bill is 49 years old and has just been downsized after working for his employer for 10 years. Bill believes that finding another job is not going to be a problem, so he decides to use a portion of the \$100,000 he's accumulated in his employer's 401(k) plan to travel around the world.

Many people are surprised at how much they have accumulated in their retirement plan and are often tempted to spend at least part of their distribution. However, when cashing out your retirement plan, you can lose almost half your balance to income taxes. Remember, this money has never been taxed, so when you take it out of the plan you will pay taxes on all of it. In addition, if you are under age 59½ and an exception does not apply, you will also pay a 10% federal tax penalty.

Let's see how this impacts Bill's distribution:

- Bill must pay ordinary income taxes on his entire 401(k) balance. (We assume he has no employer stock in the plan.) Immediately when the money is distributed from his plan, Bill's employer will withhold 20% as required as an advance of ordinary income taxes payable. At tax time, Bill will pay the balance of taxes due.
- Since Bill is under age 59½ and he does not qualify for an exception, he must pay an additional 10% federal tax penalty. Assume Bill is in a combined federal and state tax bracket of 33%:

401(k) Balance	\$100,000
Less ordinary income taxes 33%	\$ 33,000
Less 10% federal tax penalty	\$ 10,000
Total left for Bill	\$ 57,000

Taking a lump sum distribution can be very costly. In addition to the tax bill you will pay, you lose the benefit of tax-deferred growth provided by IRAs and qualified retirement plans. The long-term impact of taking a distribution may significantly outweigh the short-term benefit of having the money today. Therefore, although there may be times in your life when you absolutely must have the money, think carefully of the impact a lump sum distribution will have on your retirement savings plan.

ADVANTAGES	DISADVANTAGES
You may be in a better position to pay your taxes on these assets now instead of later. All taxes are paid up front, and should you reinvest the money, you will owe taxes only on the earnings (See your tax advisor)	Mandatory 20% tax withholding
May be advantageous if you have employer stock within your employer plan	May be subject to a 10% premature distribution penalty
The distributed money is available for current needs	Immediate taxes generally due on the full amount of your distribution (even if you reinvest it), and future earnings may be taxed annually
You can invest your money any way you like	Lose benefits of tax deferral, which may result in reduced growth or income potential because of paying taxes annually



# If you have employer stock in your pension plan...

... it is important that you understand your options under the concept of Net Unrealized Appreciation.

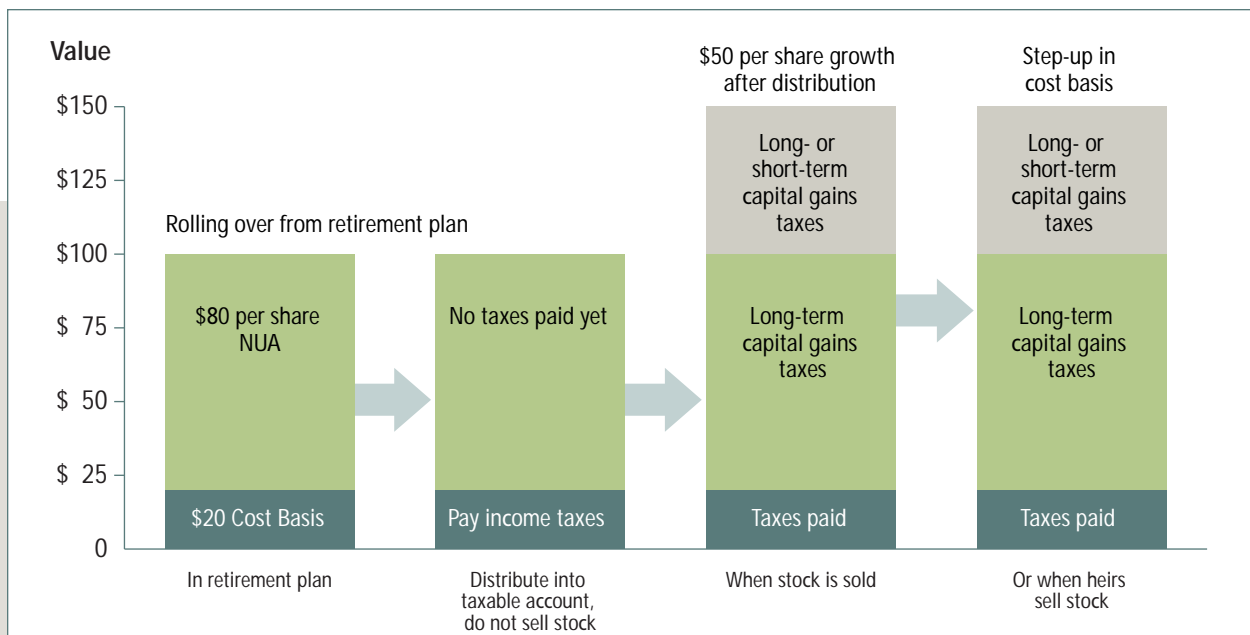
Net Unrealized Appreciation (NUA) is the increase in value experienced by employer stock while it is in a qualified retirement plan. It is the difference between the cost basis (the purchase price or contribution value) of employer securities when they were acquired by the plan and the fair market value of those securities when they were distributed from the plan. NUA is not taxed until the stock is sold in a later transaction. NUA could potentially mean tax savings for you.

Here's why NUA is so important. If you distribute the stock from the plan (take it from the plan and pay taxes on it), you pay ordinary income taxes only on the cost basis of the stock. When you actually sell the stock, the NUA is taxed at capital gains rates. Until the stock is sold, taxes are deferred on the appreciation of the stock. This can result in significant tax savings.

Here's an example:

- Employer Stock in retirement plan, 1,000 shares with an average cost of \$20 per share
- Fair Market Value at distribution from plan: \$100,000
- Shares later sold after one year for \$150,000
- When Distributed: You pay ordinary income taxes on \$20 per share
- The \$80 is NUA and is not yet taxed
- When you ultimately sell the shares, the \$80 per share is taxed at long-term capital gains rates
- The additional growth of \$50 per share is also taxed at a long-term capital gains rate since it was held at least one year plus one day from the date of distribution

## Distributing of Employer Stock from Retirement Plan



If instead the stock is rolled to an IRA, no taxes are due at the time of rollover, however when the stock is sold and liquidated from the IRA it is totally taxable at ordinary income rates.

Note: Returns are hypothetical and are not intended to reflect any actual investments. A MetLife or New England Financial representative appropriately licensed to buy and sell stocks can assist you with this transaction.

## Comparison of Distributing Employer Stock and Rolling to an IRA

### ASSUMPTIONS

- Current value of stock: \$1,000,000
- Cost basis of stock: \$100,000
- Stock sold 4 years after distribution
- Value of stock at time of sale: \$1,100,000
- Assume federal tax bracket of 35%
- Assume employee over age 59½

OPTION 1: NUA STRATEGY	Action	Value
	Initial distribution of stock	\$1,000,000
	Taxes due on cost basis (\$100,000)	\$ 35,000
	<b>Stock sold 4 years later</b>	-0-
	Value of stock at time of sale	\$1,100,000
	Long-term capital gains on NUA (\$900,000)	\$ 135,000
	Long-term capital gains on growth (\$100,000) after distribution	\$ 15,000
	<b>Total taxes paid</b>	<b>\$ 185,000</b>

OPTION 2: ROLLOVER TO IRA	Action	Value
	Stock rolled over to IRA	\$1,000,000
	Taxes due on rollover	\$ 0
	<b>Stock withdrawn from IRA 4 years later</b>	-0-
	Value of stock withdrawn from IRA	\$1,100,000
	Taxes due in years of withdrawal on entire value withdrawn from IRA	\$ 385,000
	<b>Total taxes paid</b>	<b>\$ 385,000</b>

Cost savings by using NUA strategy: \$200,000

Note: Tax rates are hypothetical. The above chart is for illustrative purposes only and is not representative of any MetLife product. A MetLife or New England Financial representative appropriately licensed to buy and sell stocks can assist you with this transaction.



# —| Meet Connie

You may want to consider this option if you:

- Plan to reinvest only a portion of your eligible rollover distribution
- Need more time to consider your options
- Need short-term, temporary access to your retirement assets

## Alternative #3:

**Take your retirement savings in a check and roll it to an IRA or another retirement plan within 60 days**

After 10 years with her employer, Connie decides to start her own business. She is 52 years old and has always dreamed of opening a doll shop. When her husband passed away leaving her a substantial insurance benefit, she decided it was time to follow her dream. She will use her insurance benefit to start her business. She has accumulated \$200,000 in her employer's 401(k) and she decides she wants to keep that money invested but wants to move her money from the employer plan to an IRA. She elects to have the pension distribution check made payable to her and she will then roll the distribution into an IRA within 60 days.

After receiving your lump sum distribution, you must be careful how you complete the rollover. If you choose this option, be aware that the plan administrator is required to withhold 20% for federal income tax purposes. Therefore, if you do not replace the 20% withheld with money out-of-pocket, the 20% will be included in your income and subject to income tax. If you are under age 59½ and if you do not replace this 20%, it may be subject to the 10% federal premature distribution penalty.

Here's what happened with Connie:

Amount to be distributed	\$200,000
20% withheld	\$ 40,000
Amount received by Connie	\$160,000

To roll the entire balance over, Connie must come up with \$40,000 from her assets and roll them with the \$160,000 she received, within 60 days. If she does not have \$40,000, the \$40,000 she failed to rollover becomes a taxable distribution.

Here is the result of the taxable distribution	\$ 40,000
Tax due at 33% tax bracket	- \$ 13,200
10% Federal Tax Penalty	- \$ 4,000
Amount paid directly to Connie after taxes	\$ 22,800

Amount lost to taxes: \$17,200

ADVANTAGES	DISADVANTAGES
Maintain tax deferral on amount rolled over	Mandatory 20% withholding
60 days to decide where to reinvest distribution	Amount withheld may become a taxable distribution
Partial rollovers allowed—can distribute some money if needed	Possible 10% premature distribution penalty on amounts not rolled over
Planning flexibility	60 day deadline
	Forego any special 10-year tax averaging if rolled into an IRA (if eligible and born prior to Jan 1, 1936)*

\* If you were born before Jan 1, 1936 and you qualify, you may be eligible for special 10-year forward averaging for distributions from an employer plan. It is not available for distributions from an IRA. Please consult your tax advisor for details.



# —| Meet Lisa

You may want to consider this option if you:

- Do not need the money immediately
- Want to avoid current taxes and penalties
- Want to consolidate your retirement assets

## Alternative #4:

**Directly transfer your retirement savings in to an IRA or another employer retirement plan**

She is 49 years old. After 15 years with her employer, she has been downsized. Luckily for Lisa, she has found an opportunity with another employer in her city. She has decided to directly transfer her 401(k) from her previous employer into an IRA. The value of her 401(k) is \$250,000.

You can avoid current income taxes, the penalty tax, and the mandatory withholding by directly transferring your money into an IRA or another employer's qualified retirement plan. A direct transfer will keep your savings on its tax-deferred course, since no taxes are due until you withdraw your money.

It's easy! All you have to do is instruct your company to directly transfer your retirement money to the financial institution where you established your IRA or to your new employer's retirement plan.

Let's look at Lisa's situation:

Lisa opens her IRA, completes the paperwork and her employer transfers her distribution directly to the IRA. By electing the direct transfer, Lisa accomplishes the following:

- She avoids the mandatory 20% federal income tax withholding
- She does not incur any current federal income taxes, and perhaps does not incur current state income taxes
- Her assets continue to grow tax deferred
- She avoids the potential 10% federal tax penalty for premature distributions

With a direct transfer, the full amount is transferred and continues to grow tax deferred.

Gross distribution	\$250,000
Amount directly transferred into a qualified plan or IRA	\$250,000
Amount lost to taxes and penalty	\$ 0

If you are considering using Lump Sum distribution assets to fund a Roth IRA, keep in mind that you must first roll over your distribution to a traditional IRA and then convert that Traditional IRA to a Roth IRA. Beginning in 2008, you will be able to transfer directly to a Roth IRA. Ask your MetLife Representative for information about this option when it becomes available.

Can all money be rolled over or directly transferred?

Certain distributions are not eligible to be rolled over or directly transferred.

These include:

- Distributions that represent Required Minimum Distributions
- Distributions that are part of a series of substantially periodic payments based on your life or life expectancy or for a specified period of 10 years or more
- Money that represents a hardship distribution
- Money in a SIMPLE IRA during the first 2 years of participating in the plan

ADVANTAGES	DISADVANTAGES
Maintain tax deferral	Loans are not available from an IRA
Avoid mandatory 20% withholding	Forego any special 10-year tax averaging if rolled into an IRA (if eligible see note on page 9)
No current taxes or penalties	Potentially limited investment choices if deposited into a new employer's plan
Partial direct rollovers allowed	
Wide range of investment choices if transferred into an IRA	Potential withdrawal restrictions under the terms of the qualified plan
If rolled to an employer plan may have loan capability or life insurance if plan allows	



# Meet Jerry Meet Don

You may want to consider this option if you:

- Need some money but want some of your money to continue to grow tax deferred
- Have some employer stock in your plan and want to take advantage of Net Unrealized Appreciation

## Alternative #5:

Directly transfer some assets to an IRA or employer retirement plan and take the remainder in cash

At age 62, Jerry was thrilled to retire from his career as an engineer for almost 40 years, with a 401(k) of almost \$750,000, an employer pension plan, several IRAs and a sizable savings account.

Since Jerry felt he had ample savings, he decided it was time for that vacation home he had always wanted. He decided to directly transfer \$500,000 from his 401(k) into an IRA and take a cash distribution of \$250,000 for a down payment on a condominium in Florida.

In some cases, you may find you would like to transfer only part of your distribution while receiving the rest in cash. In this example, Jerry will pay taxes on the \$250,000 distribution and directly transfer the remaining \$500,000 without taxes or any potential penalty:

### Distribution:

\$250,000 Taxable Distribution  
\$82,500 Taxes (assuming a combined federal and state bracket of 33%)  
\$167,500 Distribution after taxes for the down payment

### Direct transfer:

\$500,000 Amount to directly transfer  
\$0 Taxes Payable  
\$500,000 Amount transferred over

## Now let's look at a more complicated example:

After a long and distinguished career as an ad executive, Don has decided to retire at the age of 65. Don has a 401(k) worth \$1,000,000. Of that, \$400,000 is in employer stock. The company has done well over Don's tenure and Don's 4000 shares of employer stock have a current market value of \$100 per share but an average cost basis of only \$40 per share.

In this case, Don decides to take a distribution of the employer stock and directly transfers the remaining assets to an IRA.

Due to the Net Unrealized Appreciation in the employer stock, he will pay ordinary income on the \$40 average cost basis of the stock and when he ultimately sells the stock, he will incur

- long-term capital gains liability on the remaining \$60 per share.
- short- or long-term capital gains liability on any subsequent appreciation of the stock, depending on how long he has owned it since the distribution.

Don directly transfers the remainder of his 401(k) into an IRA with no tax or tax penalty:

- \$1,000,000 401(k) balance
- \$400,000 Employer stock

- \$400,000 distributed
- \$160,000 cost basis of shares
- \$160,000 taxable at ordinary income rates
- Stock is now in a non-qualified brokerage account
- When stock is ultimately sold, \$240,000 will be taxable as a long-term capital gain
- Any additional appreciation will be a long- or short-term gain depending on holding period
- \$600,000 balance of 401(k) transferred directly to an IRA
- There are no taxes, imposed on the direct transfer

ADVANTAGES	DISADVANTAGES
Flexibility—You can take money if you need it and directly transfer the balance	Forego any special 10-year tax averaging if transferred into an IRA (see footnote on page 9)
Ability to take advantage of Net Unrealized Appreciation if plan holds employer stock	Potentially limited investment choices if left in the employer's plan
Any amounts directly transferred incur no taxes or federal tax penalty	
Avoid mandatory 20% withholding	May be withdrawal restrictions in a qualified plan
Amounts directly transferred maintain tax deferral	

Note: A MetLife or New England Financial representative appropriately licensed to buy and sell stocks can assist you with this transaction.

# the next step

A major financial decision such as what to do with your retirement plan assets requires a thorough analysis of the options available to you and how they'll impact your finances.

Your MetLife Representative can help you determine which options make the most sense for you, given your individual objectives and circumstances. He or she can also provide you with the alternatives you need to consider to reinvest plan proceeds in a wide variety of vehicles.

Call your MetLife Representative today.

## Your alternatives at a glance

DISTRIBUTION OPTION	BENEFITS	INVESTMENT CHOICES	ITEMS TO CONSIDER	TAX CONSIDERATIONS
<b>Leave Money in Previous Employer's Plan or Roll to a New Employer Plan</b>	<p>10-year forward averaging may be ultimately available for lump sum distributions if eligible and born before Jan 1, 1936</p> <p>Employer plan may have loan provisions</p> <p>May provide for life insurance</p>	<p>Limited to those offered by the plan</p> <p>May have employer stock</p>	<p>Not all qualified plans accept a rollover</p> <p>Distributions from qualified plans are required to begin the April 1 of the calendar year following the later of: (1) the calendar year you attain age 70½ (2) the calendar year of your retirement</p> <p>(unless you own 5% or more of your employer)</p>	<p>No mandatory 20% federal income tax withholding</p> <p>No 10% federal tax penalty on premature distributions</p> <p>Money in qualified plan grows tax deferred</p>
<b>Take Retirement Savings in a Lump Sum</b>	<p>Immediate access to your money</p> <p>May be eligible for 10-year averaging if born before Jan 1, 1936</p>	<p>Spend your money any way you like</p>	<p>Lose benefits of tax deferral</p> <p>Possible 10% federal tax penalty on premature distributions</p> <p>Reduced growth or income potential</p> <p>Rollover to an IRA or qualified plan is generally only available during the first 60 days after distribution</p>	<p>Immediate taxes due on your distribution</p> <p>Mandatory 20% federal income tax withholding</p> <p>Earnings on your money taxed each year (unless you invest in tax-free or tax-deferred investments)</p> <p>Future annual earnings on this money will be added to your other income, possibly raising your income tax bracket</p>
<b>Direct Transfer to an IRA or Employer Plan</b>	<p>Provides control over money</p> <p>Employer plan—if it accepts a rollover or transfer may provide loans or employer stock</p> <p>Ability to provide your beneficiary with estate planning options</p>	<p>Wide range of choices in an IRA including: Mutual Funds, Stocks and Bonds and other Investments, annuities, CDs</p> <p>If in employer plan, limited to what is offered in employer plan but may have employer stock</p> <p>Cannot invest in collectibles</p>	<p>Must start taking Required Minimum Distributions by April 1 of the year following the year you turn age 70½</p> <p>Distributions from qualified plans are required to begin the April 1 of the calendar year following the later of: (1) the calendar year you attain age 70½ (2) the calendar year of your retirement</p> <p>(unless you own 5% or more of your employer)</p>	<p>No mandatory 20% withholding</p> <p>No 10% federal tax penalty on premature distributions</p> <p>Maintain tax deferral</p>

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As a leader in individual insurance, employee benefits and investments for retirement, MetLife can help you plan a smooth transition from your working life to your life after work. Your MetLife representative can help you understand the issues that stand between you and your objectives. And you can also be sure that your representative will help you address those issues with strategies that are designed specifically for you. At MetLife, we create personal safety nets for you and the people in your life who matter most.



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