Distributions from your employer-sponsored retirement plan

Understanding your options
Your decision today

about your employer-sponsored retirement plan may have an impact on your standard of living in retirement.
A big decision that can make a big difference in your future

What will you do with your retirement plan when you leave a job, change jobs, or retire?

Deciding what to do with your retirement plan when you leave a job can have a significant impact on your future financial security. With the increase in employer-sponsored retirement plans such as 401(k)s, many people have accumulated considerable balances by the time they leave the company. A 401(k) or similar retirement plan is often a person’s single-largest financial asset.

Take time to know the facts and evaluate your options to make a decision that could serve you well over the long term.

There are various options for your retirement plan distribution.

You have five basic options for your retirement plan money when you leave a job. You can:

1. Take a lump-sum distribution,
2. Leave your funds in an employer’s plan,
3. Transfer assets to your new employer’s plan,
4. Roll over your funds to a traditional individual retirement arrangement (IRA), or
5. Roll over your funds to a Roth IRA.

Please note that rolling funds over to an IRA does not assure positive results or that sufficient funds will be available for retirement.
Evaluating the options that exist for your retirement plan distribution

Let’s take a closer look at the five basic options for your employer-sponsored retirement funds when you leave a job. (See the table on page 7 for a side-by-side comparison.)

**Option 1:**
Take a lump-sum distribution.

It’s easy to see why this option is so tempting to some people. What may appear to be a sudden windfall of available cash or stock seems like an easy solution for paying off debt, covering expenses, or making a much-needed (or wanted) purchase. But there’s a big cost for taking that option – one that you’ll pay for now and later.

**Some advantages of a lump sum could be:**
If there is employer stock in the plan, there may be an advantage to taking an in-kind distribution of the employer stock (receiving the distribution in stock rather than in cash) to gain the benefits related to net unrealized appreciation.

If a lump sum is reinvested, favorable capital gains tax rates may apply instead of the ordinary income tax rates that apply to retirement plan and IRA distributions.

**The limitations of a lump-sum distribution may include:**
- Federal income tax (if not rolled over)
- State and local taxes (depending on where you live)
- Loss of income tax deferral
- Starting over – or trying to catch up – on retirement savings
- 20% mandatory federal income tax withholding (actual federal tax liability could be greater)
- 10% federal additional tax if you are under age 59½ unless an exception applies
- Lose creditor protection of plan assets

**Options 2 and 3:**
Leave money in current employer-sponsored plan or transfer to new employer-sponsored plan.

There are two ways of leaving your money in an employer-sponsored plan. One is to simply leave it in the former employer-sponsored plan. The other – if you’re changing jobs – is to complete a direct rollover to your new employer-sponsored plan. Be aware that, whatever advantages you anticipate in leaving the funds in an employer-sponsored plan, you will be giving up some degree of control and flexibility.

**Some advantages to consider for leaving funds in an employer-sponsored plan, compared to rolling funds to an IRA, include:**
- Potentially lower fees and other costs
- Potentially lower taxes through use of net unrealized appreciation (NUA)
- Potential later start of required minimum distributions
- Certain exceptions to the 10% federal additional tax for early distribution apply only to distributions from qualified plans
- Some funding vehicles may be available only in the plan
- Access to employer plan services and resources such as planning tools and educational materials
- Plan assets generally have unlimited protection from creditors under federal law.
- Some retirement plans allow participants to take loans

**Some limitations in leaving the funds in an employer-sponsored plan could include:**
- Plan guidelines may restrict access to your money
- Allocation options limited to those selected for the plan
- 20% mandatory federal income tax withholding if funds from the current plan are distributed to you before you move the funds to the new plan; there is no withholding if funds are moved directly between plans
- Distribution choices of beneficiaries may be limited if plan participant dies
- If there are designated Roth funds (e.g., Roth 401(k)) in the plan, required minimum distribution rules apply to those funds (unlike funds in a Roth IRA)

It is important to be aware of which limitations and advantages of employer plans may change at the discretion of the employer, such as allocation choices, and which are independent of any employer choice, such as certain exceptions to the 10% federal additional tax. Employer plan rules may change, especially if a company is sold or merged. And if you are considering moving assets from an employer-sponsored plan to a new employer-sponsored plan, it is wise to understand the difference between the employer plan rules and services offered by each.

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1 Internal Revenue Code 72(t)(2)(A)(v) allows for an exception to the 10% early withdrawal tax for payments made to an employee after separation from service after the obtained age of 55.
Option 4:
Roll over your funds into a traditional IRA.

A rollover IRA can be an attractive strategy to continue tax-deferred growth and assume some control and flexibility over your retirement funds when you leave a job. There are two types of rollovers:

• **A direct rollover.** This occurs when your former employer-sponsored plan transfers your assets directly to a new IRA.
  - No mandatory 20% federal income tax withholding upon direct rollover from plan to IRA.

• **An indirect rollover.** This is when your employer-sponsored plan issues a check payable to you and you place the money in an IRA within 60 days from the day you receive the check.
  - Mandatory 20% federal income tax withholding upon distribution from plan (however, no actual income tax is triggered as long as you make up the 20% "out-of-pocket" and deposit the funds into a traditional IRA within 60 days from the day you receive the check).¹
  - Once assets are rolled to an IRA, there is no mandatory 20% withholding when assets are later distributed from the IRA (although taxable distributions from a traditional IRA must be included in your taxable income for the year and may be subject to a 10% federal additional tax if you withdraw the funds from your traditional IRA before age 59½).

There are many factors to consider before making a decision about a rollover from an employer plan to a traditional IRA. The following advantages and limitations must be weighed before deciding to roll over to a traditional IRA:

**Advantages of a rollover to a traditional IRA may include:**

• Continued tax-deferred growth potential is a feature of an IRA.

• Flexibility to select allocation options to build a diverse portfolio that fits you and your goals, since you have the choice of which IRA provider and financial vehicle you would use for your IRA. Employers often decide which allocation options to offer within their employer-sponsored plan based on minimizing their fiduciary liability. By rolling over your employer-sponsored plan to a traditional IRA, you are no longer limited to the allocation options selected for the employer’s plan. Different IRA providers and different financial vehicles for an IRA may limit your allocation options, but you have the choice of IRA provider and financial vehicles. You can decide which options are an appropriate fit for you given your specific retirement timeline, the return you would like to achieve, and the level of risk with which you are comfortable. This may be your entire retirement nest egg, accumulated over many years, providing the only means of funding the retirement lifestyle you would like to have. So make sure you work with a financial professional to decide which strategy and financial vehicles may be appropriate for you.

• There is no mandatory 20% federal income tax withholding on distributions from the IRA.

**Limitations of a rollover to a traditional IRA may include:**

• A rollover to an IRA may involve commissions, fees, surrender charges, and other costs that would not apply to funds in a qualified plan.

• Employer-provided plan services and resources are no longer available after rolling from the plan into a traditional IRA.

• Traditional IRAs require minimum distributions once you reach age 70½, and you may be subject to significant taxes and penalties if distributions are not taken as required. Employer-sponsored plans generally allow delaying minimum distributions until retirement.

• Most distributions taken from a retirement plan before age 59½ will be subject to a 10% federal additional tax, along with the ordinary income taxes. There are certain circumstances where withdrawals from a retirement plan or IRA prior to age 59½ are allowed with no federal additional tax. Some of the circumstances under which the federal additional tax does not apply for a traditional IRA are different from those for an employer-sponsored plan. Ask your tax advisor about all the options available.

For example, if you leave your job between age 55 and 59½, you may be able to take withdrawals from an employer-sponsored plan free of the 10% federal additional tax.

• If your employer-qualified plan had employer stock in it, tax law potentially provides favorable tax treatment when that stock is distributed from the employer-qualified plan. If instead the stock is rolled into a traditional IRA, distributions from the IRA are taxed as ordinary income and potential favorable tax treatment (often referred to as net unrealized appreciation or NUA) is lost. Ask your tax advisor for more information on the NUA rules if you have employer stock in your employer-qualified plan.

• Funds in IRAs may not have the same level of creditor protection as qualified plan assets.

• Loans from IRAs are not permitted.

• If the distribution for the rollover is an in-service distribution, it may affect your ability to make future contributions to the plan.

Be aware of all options available to you and consult with a qualified tax advisor before making any decisions regarding a rollover to a traditional IRA.

¹ A nonspouse beneficiary is not allowed to do an indirect rollover to an IRA or a Roth IRA.
Taking control of your retirement strategy: the rollover IRA

If tax-free income in retirement or for your beneficiaries is your goal, then a rollover to a Roth IRA may be an appropriate option.

If you roll into a Roth IRA:

- The pre-tax amount that is rolled over will be taxable. The increase in taxable income may have several consequences, including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums.

Be sure to consult with a qualified tax advisor before making any decisions regarding the rollover. It is generally preferable that you have funds to pay the taxes due upon rollover to a Roth IRA (conversion) from funds outside of your employer plan. If you elect to take part of the distribution from your employer plan to pay conversion taxes, please keep in mind the potential consequences, such as additional Internal Revenue Service (IRS) taxes for premature distributions. A Roth 401(k) can be rolled tax-free into a Roth IRA.

If you do an indirect rollover as described in Option 4, there will be mandatory 20% federal income tax withholding upon distribution from the plan. You would have to make up the 20% out of pocket if you wish to deposit the funds into a Roth IRA, and the deposit would have to be within 60 days from the day you receive the check.

- Advantages of Roth IRAs include:
  - No required minimum distributions during the Roth IRA owner’s lifetime, but certain RMD rules do apply to Roth IRA beneficiaries.
  - Qualified distributions are income-tax-free.
  - In addition, if you roll a Roth plan to a Roth IRA (e.g., Roth 401(k) to Roth IRA), no taxes are due. The IRS requires that any employer match of contributions made to a Roth plan be placed in a pre-tax account and treated like matching assets in a traditional plan. To have income-tax-free transactions when rolling over a Roth plan that includes matching contributions from your employer, you will need to request the rollover of your contributions and earnings to a Roth IRA and your employer’s matching contributions and earnings to a traditional IRA.

Advantages of a rollover to a Roth IRA may include:

- No required minimum distributions during the Roth IRA owner’s lifetime (but certain RMD rules do apply to Roth IRA beneficiaries). Note that designated Roth funds (e.g., Roth 401(k)) that are left in a plan are subject to RMD rules.

- Continued tax-deferred growth potential is a feature of a Roth IRA.

- Flexibility to select allocation options to build a diverse portfolio that fits you and your goals, since you have the choice of which IRA provider and financial vehicle you would use for your IRA. Employers often decide which allocation options to offer within their employer-sponsored plan based on minimizing their fiduciary liability. By rolling over your employer-sponsored plan to a Roth IRA, you are no longer limited to the allocation options selected for the employer’s plan. Different IRA providers and different financial vehicles for an IRA may limit your allocation options, but you have the choice of IRA provider and financial vehicles. You can decide which options are an appropriate fit for you given your specific retirement timeline, the return you would like to achieve, and the level of risk with which you are comfortable. This may be your entire retirement nest egg, accumulated over many years, providing the only means of funding the retirement lifestyle you would like to have. So make sure you work with a financial professional to decide which strategy and financial vehicles may be appropriate for you.

- There is no mandated 20% federal income tax withholding on distributions from the Roth IRA.

Limitations of a rollover to a Roth IRA may include:

- A rollover to a Roth IRA may involve commissions, fees, surrender charges, and other costs that would not apply to funds in a qualified plan.
- The pre-tax amount that is rolled over will be taxable (see above section).
- Employer-provided plan services and resources are no longer available after rolling from the plan into a Roth IRA.
- Most distributions taken from a retirement plan before age 59½ will be subject to a 10% federal additional tax, along with the ordinary income taxes. There are certain circumstances where withdrawals from a retirement plan or Roth IRA prior to age 59½ are allowed with no federal additional tax. Some of the circumstances under which the federal additional tax does not apply for a Roth IRA are different from those for an employer-sponsored plan. Ask your tax advisor about all the options available.

For example, if you leave your job between age 55 and 59½, you may be able to take withdrawals from an employer-sponsored plan free of the 10% federal additional tax. With a Roth IRA, that 10% federal additional tax will not apply if the distribution is a qualified distribution.

If your employer-qualified plan had employer stock in it, tax law provides potentially favorable tax treatment when that stock is distributed from the employer-qualified plan. If instead the stock is rolled into a Roth IRA, the potential favorable tax treatment (often referred to as net unrealized appreciation or NUA) is lost. Ask your tax advisor for more information on the NUA rules.

If your 401(k) balance includes after-tax contributions, you may be able to request a separate check for these contributions and roll them (as a conversion) directly into a Roth IRA in a tax-free transaction. Ask your legal or tax advisor for more details.

If designated Roth funds (e.g., Roth 401(k)) are rolled into a Roth IRA, the Roth IRA distribution ordering rules apply — the designated Roth ordering rules are lost.

- Funds in Roth IRAs may not have the same level of creditor protection as other plan assets.
- Loans from Roth IRAs are not permitted.

If the distribution for the rollover is an in-service distribution, it may affect your ability to make future contributions to the plan.

Be aware of all options available to you and consult with a qualified tax advisor before making any decisions regarding a rollover to a Roth IRA.
Additional considerations

Consolidation

If you have several retirement plans from former employers, you may choose to consolidate your retirement arrangements into a single rollover IRA to simplify managing your assets during retirement.

Distributions between age 55 and 59½

If you leave your job between age 55 and 59½, you may be able to take withdrawals from an employer-sponsored plan free of the 10% federal additional tax. In contrast, different exceptions to the 10% federal additional tax apply to withdrawals from traditional and Roth IRAs before age 59½.

Company stock

If you hold employer securities in your retirement plan, you may be able to reduce your overall income tax liability by taking an in-kind distribution of the company stock before rolling over the balance of your plan to an IRA. If the employer stock or its value is rolled into a traditional or Roth IRA, the ability to use net unrealized appreciation (NUA) strategies is lost. It is important to balance this NUA strategy with how the value of your employer stock compares to the value of your other investments. In some cases, it may be worthwhile to lose the tax advantages of using the NUA strategy to have a more diversified group of investments and to gain the continued income tax deferral from the traditional or Roth IRA. Ask your legal or tax advisor for more details on NUA strategies.

Estate planning strategies

You may have other assets adequate for retirement so that you don’t require the funds in your IRA for living expenses. If so, there are options for creating a strategy that can extend your IRA assets to your beneficiaries, helping to provide future financial reassurance for your children or grandchildren. Ask your legal or tax advisor about a stretch distribution strategy. Note that beneficiaries of employer plans have the option of rolling plan death benefits into an inherited traditional or inherited Roth IRA to use a stretch distribution strategy.

Fees and expenses

Some IRAs may have fees and costs associated with them. Both employer-sponsored plans and IRAs involve investment-related expenses and plan or account fees. Investment-related expenses can include sales loads, commissions, the expenses of any mutual funds in which assets are invested, and investment advisory fees. Plan fees can include administrative costs (recordkeeping and compliance fees, for instance) and fees for services, such as access to a customer service representative. In some cases, employers pay for some or all of the plan’s administrative expenses. Traditional IRA and Roth IRA account fees can include administrative, account setup, and custodial fees, among others. Before making a rollover decision, know how much you are currently paying for your plan. Compare that to the fees and expenses of a new plan or IRA. For more information about 401(k) fees, see the Department of Labor’s publication, “A Look at 401(k) Plan Fees.” For IRA fees, ask your financial professional to provide you with information about fees and expenses, and read your annuity contract or account agreement and any investment prospectuses.

Loans

Some employer-sponsored plans allow participants to take a loan of their plan assets. Loans from IRAs are not permitted.

Services

You may wish to consider the different levels of service available when you have funds in a specific employer plan and in a specific IRA. Some plans provide access to investment advice, planning tools, telephone helplines, educational materials, and workshops. Different IRA providers offer different levels of service.

Protection from creditors and legal judgments

Assets in employer-sponsored plans generally have unlimited protection from creditors under federal laws. Assets in IRAs are generally protected only in bankruptcy situations. State laws vary in the protection of IRA assets in lawsuits.

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1 A stretch distribution strategy is most effective when individuals can afford to minimize IRA distributions during their lifetime and are able to pass remaining assets on to future generations. Changes in tax law, the impact of inflation, costs, and risks of underlying funding vehicles may have a significant impact on the long-term value of your IRA.
Individual retirement annuities

If you are considering rolling over your employer-sponsored plan assets into a traditional or Roth annuity IRA, there are additional factors you should consider. Purchasing an annuity IRA provides no additional tax benefit. An annuity should be considered for an IRA based on an annuity’s features other than tax deferral. All annuity features, limitations, and costs should be considered in rolling funds over to a traditional or Roth annuity IRA. For example, withdrawal charges and contract provisions may limit access to funds in an IRA annuity. The sale of annuities generally results in commissions while leaving funds in an employer-sponsored plan generally does not.

Financial professionals – suitability and potential conflict of interest

Firms and their financial professionals may earn commissions and fees if you roll over assets to a traditional or Roth IRA, while keeping your assets in an employer-sponsored plan may result in little or no compensation to the firm or the financial professional. Commissions and fees will vary between different financial vehicles and specific products used for a traditional or Roth IRA. You should be aware of these potential conflicts of interest when you are making a decision regarding what to do with assets in your employer-sponsored plan, and what product or vehicle to choose if you elect a rollover to a traditional or Roth IRA.

When you are working with a financial professional to consider what action regarding the assets in your employer-sponsored plan is suitable for you, factors to consider include your investment profile, age, other investments, financial situations and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information you consider important.

Other factors

While many of the factors to consider when deciding between options for assets in your employer-sponsored plan such as an IRA rollover are presented here, no list of factors can cover everything. Only you can determine if other considerations might apply to your specific circumstances.
Comparing retirement plan distribution options

The following illustration compares your options using a hypothetical $200,000 plan distribution.

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
<th>Amount eligible for rollover</th>
<th>20% mandatory federal income tax withholding</th>
<th>Additional income tax, assuming 30% tax bracket</th>
<th>10% premature distribution federal additional tax</th>
<th>Net amount available</th>
<th>Other considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1: Take a lump-sum distribution</td>
<td></td>
<td>$200,000</td>
<td>$40,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$120,000</td>
<td>• State and local taxes (depending on where you live) • Loss of income-tax deferral • If you reinvest this, you may have favorable capital gains tax rates versus ordinary income tax rates • Net unrealized appreciation (NUA) strategy for any employer stock held in the plan (requires in-kind distribution of employer stock)</td>
</tr>
<tr>
<td>Options 2 &amp; 3: Money in an employer-sponsored plan</td>
<td></td>
<td>$200,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$200,000</td>
<td>• Continued income-tax-deferred growth potential • Loss of some flexibility and control • Restricted access to your money • Mandatory 20% withholding for future distributions paid directly to you • Allocation options limited to those selected for plan • All distributions are subject to ordinary income tax • Required minimum distributions may be delayed if still employed • Lower fees may apply • Some exceptions to 10% federal additional tax are only for employer-sponsored plans • Access to services, tools, and resources the company provides</td>
</tr>
<tr>
<td>Option 4: Roll over funds directly to a traditional IRA</td>
<td></td>
<td>$200,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$200,000</td>
<td>• Continued income-tax-deferred growth potential • Control over when and how you access your money without the restrictions of your employer-sponsored plan guidelines • No mandatory 20% federal income tax withholding on future distributions • Potential flexibility to select allocation options to build a diverse portfolio that fits with your goals • Consolidates your retirement assets for easier money management • No limits on amount of rollover dollars • All traditional IRA distributions are subject to ordinary income tax + 10% federal additional tax if you are under 59½ (unless an exception applies) • Access to your money is exempt from the 10% federal additional tax for college education and first-time home purchase, up to certain limits • Required minimum distributions apply • Higher fees may apply</td>
</tr>
<tr>
<td>Option 5: Roll over funds directly (convert) to a Roth IRA</td>
<td></td>
<td>$200,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$140,000</td>
<td>• Qualified distributions are income-tax-free • Control over when and how you access your money without the restrictions of your employer-sponsored plan guidelines. • No mandatory 20% federal income tax withholding on future distributions • Access to your money is exempt from the 10% federal additional tax for college education and first-time home purchase, up to certain limits • Higher fees may apply</td>
</tr>
</tbody>
</table>

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This hypothetical example is for illustrative purposes only and does not represent actual clients.

1 Represents additional taxes due on amount distributed, after the 20% mandatory federal income tax withholding assuming federal, state, and local tax.

2 10% federal additional tax may apply if taken before age 59½ unless you qualify for certain limited exceptions.

3 This list is not exhaustive. Please see pages 1 through 6 in this brochure for a discussion of additional considerations.

4 Certain IRA funding vehicles, such as annuities, may have surrender charges or other restrictions on access to the money in the IRA.
Make the most of your options

Take the time to make an informed decision.

Some options may seem appropriate at first glance, but limiting in the long run. For example, taking a lump sum for cash to purchase something now that you’ve always wanted may end up being costly in the long term. Or leaving funds in an existing plan for the convenience might cause you to give up some degree of control and flexibility in the long run. Or rolling over plan funds to a traditional or Roth IRA may involve higher costs and fees. That’s why taking time to understand your options and consider the facts before making a decision is important.

Make a difference in your financial future.

You have choices and the final decision is up to you. The sooner you start planning, the more you’ll have time on your side. And more time – used wisely – may mean more money for your retirement years.

Any transaction that involves a recommendation to liquidate funds held in a securities product, including those within an IRA, 401(k), or other retirement plan, for the purchase of an annuity, can be conducted only by individuals currently affiliated with a properly registered broker/dealer or registered investment advisor. If your financial professional does not hold the appropriate registration, please consult with your own broker/dealer representative or registered investment advisor for guidance on your securities holdings.
You have choices
and the final decision is yours to make.
Contact your financial professional for help.
True to our promises …
so you can be true to yours.

As leading providers of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) and its subsidiary, Allianz Life Insurance Company of New York (Allianz Life® of NY), base each decision on a philosophy of being true:
True to our strength as an important part of a leading global financial organization. True to our passion for making wise investment decisions. And true to the people we serve, each and every day.

Through a line of innovative products and a network of trusted financial professionals, Allianz and Allianz Life of NY together help people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz, together with Allianz Life of NY, is proud to play a vital role in the success of our global parent, Allianz SE, one of the world’s largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises we believe we make a real difference for our clients. It’s why so many people rely on Allianz and Allianz Life of NY today and count on us for tomorrow – when they need us most.