In-Service Withdrawals

Creating Guaranteed Income from a 401(k) or other Qualified Plan

With the economic landscape continuing to change, many clients may be looking for alternatives for the money they have accumulated in their 401(k) or other qualified plan.

Your clients may be seeking a way to:

- Enjoy flexibility and control
- Protect their principal, and
- Create guaranteed retirement income

One option they have to achieve these goals for their plan assets is to consider taking an in-service withdrawal as a direct rollover from their employer retirement plan and purchase a SecureLiving® Index annuity, established as an Individual Retirement Annuity (IRA). With a SecureLiving Index annuity your client has the flexibility, control, and guarantees they are looking for from their retirement funds.

The Client:

Suzy Hoffman, age 59

The Situation:

Suzy is happily employed and plans to retire in the next 5 to 7 years. As a part of Suzy's benefit plan, she has been contributing to a 401(k). Due to fluctuations in her 401(k) balances over the past few years coupled with the fact that she is getting closer to retirement, Suzy is looking to add some guarantees on her hard earned money.

The Strategy:

Suzy took some time to discuss her goals with her financial professional. They talked about her plan to retire in the next 5 to 7 years and her desire to provide guarantees around the money she has saved within her employer retirement plan. After their discussion, Suzy determined that she would like to move a portion of the funds in her 401(k) into an Individual Retirement Annuity to provide guarantees for her principal and future retirement income needs.

The Solution:

During Suzy's discussion with her financial professional they went over different options available to meet her retirement goals. Based on her retirement goals, she decided the principal protection and lifetime income withdrawals offered by a SecureLiving Index 7 annuity with the optional Income Protection rider was the right solution. The SecureLiving Index 7 Annuity offers Suzy principal protection for her hard earned dollars, the opportunity for growth, and the flexibility to provide guaranteed income withdrawals for the rest of her life. Best of all, Suzy can retire on her terms. The timing of her withdrawals can be based on her retirement schedule, not a contract anniversary.

After verifying with her employer's retirement plan administrator that she is eligible to take in-service withdrawals, Suzy completed a direct rollover of $400,000 into a SecureLiving Index 7 annuity with the optional Income Protection rider, established as an Individual Retirement Annuity.

When Suzy turns 65 and decides to retire, she elects to begin receiving payments under the rider and is guaranteed $31,080 each year for the rest of her life, regardless of the contract's performance. This amount is determined by two aspects: Because of daily crediting, her benefit base grew by 8% simple annual interest rate during the 6 years before her retirement and a withdrawal factor of 5.25% based on Suzy's age. This along with her other resources will allow her to focus on what is important to her in retirement.

This is a hypothetical example for illustrative purposes only.

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What is In-Service Withdrawal?

An in-service withdrawal can be a way for active employees, typically age 59½ and up, to transfer funds from their employer sponsored 401(k) or other qualified retirement plan into an IRA without incurring income taxes or penalties. Although the tax code generally allows such rollovers, some plans impose more restrictive rules.

Your client will need to determine with his or her plan administrator whether or not an in-service withdrawal is allowed from their plan and any other limitations that may be in place (such as withdrawal amount restrictions, type of funds, and timing of any transfers allowed). If an in-service withdrawal is permitted by the plan, they should discuss potential tax implications with their tax advisor before transferring the funds out of their current plan.

What is a "rollover"?

A rollover occurs when you withdraw cash or other assets from one eligible retirement plan and contribute all or part of it within 60 days to another eligible retirement plan.

Why suggest a "direct rollover?"

A qualified plan administrator is typically required to withhold 20% for federal income taxes from any distribution made directly to the plan participant – even if that participant intends to roll it over with the 60 day time limit. With a direct rollover, the funds are transferred from the plan trustee directly to another qualified retirement plan or IRA and are not subject to this withholding.

If allowed by the plan, what funds are available for in-service withdrawals?

- The tax code permits the following funds to be rolled over from a 401(k) as part of an in-service withdrawal (subject to plan approval):
  - Employer matching and profit sharing contributions
  - Employee after-tax contributions (non-Roth)
  - Employee pre-tax and Roth contributions after the employee attains age 59½
- The tax code prohibits rolling over the following contributions prior to separation from service (plan cannot override):
  - Employer safe harbor match or safe harbor non-elective contributions
  - Employee pre-tax or Roth contributions before the employee attains age 59½
- Many defined contribution plans (such as 401(k) plans) allow in-service withdrawals once a participant reaches age 59½, while others may allow them based upon years of work or service credits, instead of by minimum age. Withdrawals may be subject to a vesting schedule.

SecureLiving® Index 7 issued by Genworth Life and Annuity Insurance Company, Richmond, VA

SecureLiving® Index 7 individual single premium fixed deferred annuity with market value adjustment and optional index interest crediting is issued by Genworth Life and Annuity Insurance Company, policy form series GA3003-0711 and GA300R-0511 et. al., ICC11GA3001 and ICC11GA300R. Products and/or riders may not be available in all states or markets. Features and benefits may also vary by state or market.

All guarantees are based on the claims-paying ability of Genworth Life & Annuity.

The discussion of tax treatments in this material is Genworth's interpretation of current tax law and is not intended as tax advice. You should consult your tax professional regarding your specific situation. Withdrawals may be taxable and a 10% federal penalty may apply to withdrawals taken before age 59½.

There is no additional tax deferral benefit for annuities purchased in an IRA, or any other tax-qualified plan, since these plans are already afforded tax-deferred status. The other benefits and costs should be carefully considered before purchasing an annuity in a tax-qualified plan.

This is a brief product description. Consult the annuity contract for a detailed description of benefits, limitations, and restrictions.

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