# Distribution options for your retirement fund

**Whether you are at the end of your work life, changing jobs or starting your own business, there are decisions about your retirement plan that you must make now. There are alternatives for managing your retirement funds; you should learn more about them to choose the one that best suits you.**

**This guide summarizes possible alternatives to manage those savings. It also points out some factors to consider when evaluating each option.**

## The ideal help

The information in this document is intended to show you a number of important and general concepts. Each person has a particular financial situation, so it is essential to rely on a professional who is knowledgeable in areas such as legal, tax, and investments.

## 4 OPTIONS TO MANAGE YOUR FUNDS

1. Keep savings in the Plan
2. Transfer the savings to your new employer's qualified retirement plan
3. Transfer the savings to an IRA.
4. Withdraw your savings from the Plan and close the account

Each option has its advantages and disadvantages. Make sure you understand the details and implications of each one, such as: investment alternatives, fees and expenses, services and tax implications. There may be other factors that you should consider given your needs and specific situations.

## 1. Keep savings in the Plan if you have over $5,000 in your account

### Advantages

- Administrative fees may be less than those of an IRA account.
- You keep your savings invested and taxes will continue to be deferred.
- You maintain your current investment alternatives.
- The Plan's trustee monitors the cost and quality of investment options.
- Distributions carry no penalty.
- You are protected against potential creditors and bankruptcy.
- Provides access to planning tools, educational resources and assistance through TeleBanco Popular®.

### Disadvantages

- Changes made by your former employer will affect you (in terms of investment alternatives and services offered, costs, fees, plan providers, and termination).
- You will only have the investment alternatives provided by the Plan.
- You are subject to possible limitations, including the requirement to begin receiving distributions upon reaching your retirement age.
- You cannot continue contributing.

## 2. Transfer the savings to your new employer's qualified retirement plan

### Advantages

- Your savings remain tax-deferred (it must be a plan qualified by the Puerto Rico Department of the Treasury).
- You continue to contribute and save for your retirement under the new Plan.
- You consolidate your assets for retirement in a single account.
- Fees may be less than those of an IRA account.
- The Plan's trustee monitors the cost and quality of investment options.
- While still working, you could withdraw money without penalties (confirm this information with your plan administrator).
- You are protected against potential creditor claims and bankruptcy.
- You may have access to planning tools, educational resources, and assistance through TeleBanco Popular®.
- You can take out loans from the transferred money (if the plan provides loans).

### Disadvantages

- Investment alternatives are those offered through your employer's retirement plan.
- You may be subject to new plan limitations, including provisions for income distribution upon retirement or more restrictive provisions in terms of withdrawals from the account while you are still employed
- You may lose access to personalized investment advice or counseling that considers your other assets or particular needs should the new Plan not offer these services
- The plan may offer fewer or more expensive investment options than those of your previous one.
- Your new employer may not allow transfers from other plans or you may be subject to an eligibility period.

## 3. Transfer the savings to an IRA

### Advantages

- Your savings remain tax-deferred.
- You could continue contributing and saving for your retirement.
- You consolidate your retirement assets in a single account[1].
- Because it's your account, it offers greater control.
- You could be protected against bankruptcy.

### Disadvantages

- Penalty-free withdrawals are generally not allowed until you turn 60.
- Loans are not allowed, and you only have access to the money by making a taxable distribution (a withdrawal on which you pay taxes).
- The money is taxed as ordinary income at the time of distribution.
- You have limited protection against creditors.
- It may include charges that do not exist in your current retirement plan.

## 4. Withdraw your savings from the Plan and close the account

### General considerations

- The funds will be available to you (net of applicable tax deductions).
- You will not incur in expenses related to maintaining a retirement plan, if applicable.
- Distributions may be subject to a mandatory income tax withholding.
- Your plan may qualify for a preferential tax rate. Consult with a tax advisor or your retirement plan's administrator to determine if you qualify for it and/or the effects of any prepaid taxes.
- If you already requested a lump-sum distribution, you have a limited time to cancel it and request the funds be transferred to another retirement plan or to an IRA without it being considered a taxable event.

| Type of Payment | Withholding | Taxation | Advantages | Disadvantages |
|---|---|---|---|---|
| Lump-sum | 20% withholding[2] | - 20%<br>- May have an impact on the alternate basic tax | Greater control and liquidity | - Requires discipline when managing the money<br>- You lose the potential for future growth with deferred taxes<br>- You are not protected against collectors or bankruptcy<br>- It could involve a charge to your account |
| Total or partial transfer to another qualified retirement plan or IRA account | - Does not involve withholding if you transfer the account's total balance<br>- 20% withholding[2] on the portion that is not transferred and is paid to the participant | - A transfer is not subject to withholding or taxation until it is distributed to the participant<br>- 20% taxation[2] on the portion paid to the participant from a qualified retirement plan<br>- It may have an impact on the alternate basic tax | It does not involve income tax until it's paid to the participant, same as the profits and interests it generates | - Premature distributions of IRA accounts before the age of 60 are generally subject to penalties and are taxable as ordinary income<br>- There is limited protection against creditors on IRA accounts<br>-Could involve charges to your account |
| Periodic payments[3] (monthly, quarterly, semi-annually, annually) for substantially equal amounts[2] | - 10% withholding in excess of the annual exclusion's limit<br>- Limits for 2020:<br>$31,000 if <age 60<br>$35,000 if >age 60 | - Amounts distributed in excess of the annual exclusion are subject to ordinary income<br>- Annual exclusion:<br>$11,000 if <age 60<br>$15,000 if >age 60 | - Greater control<br>- You keep part of the money invested | - Requires discipline when managing the money<br>- Less liquidity<br>- There may be limitations on the monthly minimum payment amount and/or the frequency in which changes can be made to the amount due<br>- It could involve charges to your account |

[1] Certain restrictions may apply depending on the IRA product. See the IRA document for details.
[2] A 10% withholding and preferential tax rate may apply if: 1) The plan is under a deed of trust in Puerto Rico or the United States with a trustee located in Puerto Rico acting as the plan's paying agent. 2) 10% or more of the assets in the participant's account were invested during the current year and the two subsequent years in a property located in Puerto Rico, as designated by the Secretary of the Treasury (Internal Revenue Code, section 1081(b)(2)(B)).
* When after-tax balances are distributed, you will pay taxes on the earnings generated by those contributions.
[3] Not all retirement plans provide periodic payments. Talk to the plan administrator or check the Plan Descriptive Summary to verify if this is an alternative present in your retirement plan.

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