IN-SERVICE WITHDRAWALS

from Your Employer-Sponsored Plan

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STRATEGIES TO DIVERSIFY YOUR RETIREMENT PORTFOLIO

If you and your financial advisor determine that an in-service withdrawal is right for you, Pacific Life can offer a wide range of possible investment strategies for your IRA rollover. These strategies include mutual funds, variable annuities, and fixed annuities.

Because tax deferral is a benefit of variable and fixed annuities, it's important to know that since IRAs are already tax-deferred, a variable or fixed annuity contract should only be used to fund an IRA to benefit from the annuity's other features. These include lifetime income options, guaranteed death benefits to help protect your beneficiaries, and the potential to grow your assets. With a variable annuity, you also have the ability to transfer among investment options without incurring a sales charge or withdrawal fee.

Variable annuities are long-term investments designed for retirement. The value of the variable investment options will fluctuate and, when redeemed, may be worth more or less than the original cost.

Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal tax may apply. A withdrawal charge and a market value adjustment (MVA) also may apply. Withdrawals will reduce the contract value and the value of the death benefits, and also may reduce the value of any optional benefits.

IN-SERVICE WITHDRAWALS CAN HELP YOU DIVERSIFY

Diversification—the process of allocating your investments among a variety of asset classes—is much like following the old adage "never put all your eggs in one basket." While diversification doesn't guarantee a profit or prevent a loss, it can be an important factor in reaching your long-term financial goals. There are other diversification strategies that can help manage risk.

One strategy is to take advantage of in-service withdrawals from your employer's retirement plan. For example, you might be concerned that your employer-sponsored retirement plan:

- Contains assets that are too heavily concentrated in employer stock.
- Offers limited investment options.

By choosing to withdraw a portion of your plan assets while you're still employed (in service), you may be able to invest in a wider range of options. Withdrawals from the employer retirement plan won't be subject to ordinary income tax if rolled directly into an IRA.

Understanding What and When to Withdraw

Employers can choose to offer nonhardship in-service withdrawals in defined contribution plans (for example, a 401(k) plan) and defined benefit plans (traditional pension plans). In-service withdrawal rules will vary, depending on the plan type. Ask your human resources office for details about your employer's plan. Common plan rules for in-service withdrawals include:

Defined Contribution Plans		Defined Benefit Plans
Employee Salary Deferrals	**Employer Contributions**	
• Upon attainment of age 59½ • Due to disability • After-tax contributions • Rollovers from other retirement plans	• After a fixed number of years • Attainment of stated age • Occurrence of certain events (for example, illness or disability) **Important:** Only **vested** amounts are available for in-service withdrawals.	Even if an employer-sponsored plan's normal retirement age is 65, an employer can choose to offer in-service distributions to employees starting at age 62. Ask your human resources office if your employer's plan provides this opportunity.

EXPLORING YOUR OPTIONS

While many employer-sponsored retirement plans offer in-service withdrawals, they are not required to do so. Here are some sample questions to ask your human resources representative.

- Are in-service withdrawals allowed?
- Am I eligible to take an in-service withdrawal?
- If so, how much is currently available to me?
- Are there any requirements or restrictions on the frequency and amounts of withdrawals?
- What employer forms are necessary, and are any signature guarantees required?

For answers, you can also refer to your plan document or your company website.

Tax Tip

There's a difference between normal in-service withdrawals and "hardship withdrawals." While you're employed, some employer-sponsored plans allow withdrawals if you can prove you have a significant financial hardship. Hardship withdrawals cannot be rolled over to another eligible retirement plan (such as an IRA), are subject to ordinary income tax, and, if taken prior to age 59½, an additional 10% federal tax.

In-Service Withdrawal Example

Hypothetical example is for illustrative purposes only.

Meet Max

Max has been participating in his employer's 401(k) plan for 20 years. Over that time, his employer made matching contributions in the form of company stock.

During a meeting, Max's financial advisor expresses concern that the majority of Max's retirement plan is allocated to a single holding, and that the performance of any one stock is virtually impossible to predict. The advisor suggests that a more diversified approach may be a good way to help minimize the risk of Max's total retirement portfolio.

Strategy

Max requests a nonhardship in-service withdrawal from his 401(k) assets and rolls the proceeds directly into an IRA. This withdrawal is not subject to income tax. He can now allocate his money among a wider variety of investment options available in his IRA.

Other Things to Consider

In-service withdrawals can be very complex. Before requesting an in-service withdrawal, review these general guidelines with your financial advisor:

- For employees with fewer than five years of service, employer contributions must be held for more than two years prior to distribution (also known as the "Two-Year Bake Rule," Revenue Rule 71-295).
- Unless proceeds are rolled directly into another eligible retirement plan, withdrawals are subject to ordinary income tax plus, if taken before age 59½, an additional 10% federal tax.
- Employees may lose access to plan loans.
- Employees may lose the possible tax advantages of using net unrealized appreciation (NUA). NUA tax treatment is not an option for distributions from IRAs.
- By rolling plan assets to an IRA, employees may have limited creditor protection. Retirement plans covered by the Employee Retirement Income Act of 1974 (ERISA) generally offer greater protection from a participant's creditors.

Interested in this or other ideas for ensuring
that your retirement income strategy is right for you?
Talk to your financial advisor.

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