

**Kevin Turner**  
Financial Advisor

### Stewardship Emphasis

*A lifetime of hard work, a lifetime of prudent planning and management, and a strategy for enjoying the fruit of your labor is a solid formula for putting the gold in the golden years.*

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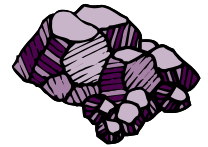
## Harvesting Retirement Income - Part 2

In the previous issue of The Empowerment Channel we started the series on tapping into retirement income sources by looking at The Reverse Mortgage. In this issue as well as the next, we will review some of the considerations in using retirement plans as income vehicles.

### Retirement Plans – The Cornerstone of Retirement Income Strategies

Since the 1980's retirement plans, whether employer sponsored or personal plans, have become the primary vehicle used in preparing for long-term income needs. Although retirement plan investments have one main feature in common, growth of the funds on a tax-deferred basis, there are so many flavors of plans that we cannot go into the details of each type of plan, but the following is a list of the more common plan types.

- 401(k)'s
- Profit Sharing Plans
- SEP Plans
- SIMPLE Plans
- 457 Deferred Compensation Plans
- 403(b) Tax Sheltered Annuities
- Defined Benefit Plans
- Traditional IRA's
- Roth IRA's
- Annuities



Despite the large number of plan options, there are essentially two forms of retirement plan vehicles: Qualified and Non-qualified. Qualified plans are covered by The Employment Retirement Income Security Act (ERISA), which among other things provides federal creditor protection of assets held in such a plan and can be an important consideration should you find yourself the subject of a lawsuit or some other claim on your assets. Non-qualified plans are not federally protected but may be protected under state statutes. Another important distinction between retirement plan types is tax treatment. In this issue we will limit our discussion to income tax treatment, but there are a variety of tax issues that must be considered when deciding on a retirement plan vehicle and in the distribution of income from that vehicle. The primary income tax question is whether or not the funds were contributed on a pre-tax or after tax basis because that will determine if the entire amount of the distribution is taxable or if only the growth portion of the distribution is taxable.

Because of the preferred tax treatment of retirement plans, there are some restrictions imposed, mainly that under normal circumstances income cannot be withdrawn before age 59-1/2 without incurring a 10% tax penalty. Of course with every rule there are exceptions, and in today's age of early retirement, one way of accessing retirement plan assets before the penalty age without incurring the penalty is to use a series of periodic payments based upon your life expectancy. The withdrawals must be maintained for a minimum of 5 years or to age 59-1/2, whichever is greater - known as IRS rule 72(t). Another restriction with almost all retirement plans except for the Roth IRA is that you must begin taking Required Minimum Distributions (RMD) by the time you reach age 70-1/2, calculated based upon your life expectancy. However, you are not required to take the RMD distribution from the retirement plan itself if you have other funds that can be used to make the payment, which can result in income tax savings.

*Having laid the groundwork for retirement plan types and their requirements, the following issue of the series will discuss investment and distribution strategies as well as important non-income tax considerations in holding retirement plan assets.*



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**Atlanta Perimeter Location:**  
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