
FINANCIAL FRIDAYS nymeo Federal Credit Union

What is an In-Service Distribution



Wouldn't it be great if your "half birthday" felt as special as it did when you were a kid? It could when you turn 59 ½ and if you are eligible for an in-service distribution or ISD from your 401(k) plan. As with all investment decisions, there are factors to consider.

Here are three commonly asked ISD questions:

1. What is an in-service distribution?

An ISD enables you to directly roll over funds from your 401(k) plan to an IRA while you're still employed at age 59 ½ – without triggering a taxable event. Many employer-sponsored retirement plans offer an ISD option, but not all, and there may be unique requirements your employer or plan administrator can discuss with you.

2. What are some of the advantages of an in-service distribution?

If you're considering an ISD, be pragmatic and talk with your advisor, as there are benefits with both 401(k) plans and IRAs. In general, an ISD rollover to an IRA enables you to:

- Select from a wider range of investments, which can help you reduce risk in your portfolio.
- Use investments that protect some of the money you accumulated in your 401(k) account over the years.
- Enjoy greater flexibility when taking income during retirement.
- Designate beneficiaries in several ways, such as naming multiple or contingent beneficiaries.
- Receive exceptions to premature distribution

- Receive exceptions to premature distribution penalties.

3. What are some of the disadvantages?

When you roll a portion of your 401(k) to an IRA, you're beholden to the rules governing IRAs. Here are a few aspects to discuss with your advisor:

- A special tax strategy called net unrealized appreciation (NUA) could offer benefits if you have highly appreciated company stock in your employer's retirement plan. You cannot use the NUA strategy if employer stock is rolled into an IRA.
- 401(k) accounts provide broader federal protection from creditors.
- If you leave your employer in the year you turn 55 or later, you can take penalty free distributions from an employer plan. You must be 59 ½ or older to take penalty free distributions from an IRA (unless other exceptions apply).
- When you reach age 72, you must take annual required minimum distributions (RMDs) from an IRA. There are no RMDs with a 401(k) plan while you are still working.
- Some 401(k) plans may offer a loan option; IRAs do not.
- Employer plans are not subject to certain fees that apply to an IRA.
- Your ability to contribute to your 401(k) may be temporarily affected.
- After-tax contributions to a qualified plan are kept separate from pretax contributions and can often be distributed separately.

If you're age 50 or older, now's the time to consider whether an ISD is right for you. Contact a financial advisor for help in deciding what actions best position you to achieve your financial goals.

Interested in getting help and expert advice?

John, as a Nymeo member, remember that you have access to two seasoned financial advisors - Anna Behnam and Irene Tata.

**Schedule a Complimentary Consultation with Anna
& Irene**



Anna A. Behnam
Financial Advisor



Irene Tata
Financial Advisor

How much does a financial advisor cost?

Your initial meeting with Anna or Irene is complimentary! Depending on your specific need, as well as the complexity of your situation, you may choose to pay for additional options. [Schedule a time to speak with them at your convenience.](#)

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The initial consultation provides an overview of financial planning concepts. You will not receive written analysis and/or recommendations.



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