

Lump-sum distribution—direct rollover

This outlines the “roll over” options that are available to your employees who are eligible, upon retirement or other separation from service, for lump-sum distributions from your profit-sharing plan.

Employees who receive a lump-sum distribution upon separation from service can elect to roll over the lump sum distribution to an IRA or, if they continue to work and are covered by another plan which will accept rollovers, to another qualified plan. This rollover, which is tax-free and further defers the tax on the lump sum while allowing continual tax-free buildup, can be accomplished either by a direct, trustee-to-trustee transfer from your plan to an IRA or another plan, or by a distribution to the employee and a transfer by him within 60 days to a rollover IRA or another plan.

The employee's individual circumstances will dictate whether a lump sum should be rolled over, or whether an employee should elect ten-year averaging, if applicable.

You must use the greatest care in explaining these roll over options and their tax consequences to your employees. These are major, once-in-a-lifetime decisions for your employees, and you will want to guard against the possibility that an employee who misunderstands and makes the “wrong” decision for him or her will seek to hold you legally responsible.