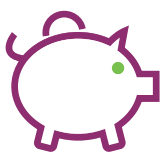
Top 4 Reasons Not to Take a Distribution

Congratulations – if you're reading this article, chances are you have a Millennium Trust Individual Retirement Account (IRA) set up in your name by a former employer. There may be a few hundred or even several thousand hard-earned dollars in it that you may not have known was yours. Now you have to decide what to do with it. There are many options, a few of which are:



1. You can leave it in the account and let it accumulate compound interest (essentially interest on interest) toward retirement

2. You can add a little bit to it every month (or however often you like) and start building a nest egg for the future

3. You can take cash out of the account through what's called a "distribution"

While your first thought may be, "Show me the money!," there are serious tax implications to consider when taking an IRA distribution before retirement age. (In fact, it's a good idea to talk to a tax advisor before taking a distribution.) Let's discuss those implications and the top things to take into consideration.

Reason #1: You may face a 10% early withdrawal penalty.

First, since an IRA is a retirement account, the rules regarding them are set up to encourage you to save for retirement. If you take money out of an IRA before retirement age (59 ½ or older), and do not qualify for one of the exemptions discussed below, you will pay a penalty of 10% right off the top.

EXAMPLE

Distribution	**-10% Penalty**
$5,000	$500

Reason #2: You'll be taxed at your current income tax rate.

The remainder of the money ($4,500, in the example above) will be added to your annual income and taxed at your current tax rate. So, for example, if you are at a 22% tax rate, you could pay another $990 in taxes – for a total of $1,490 in taxes and penalties on your original $5,000 – just for withdrawing it early.

EXAMPLE

Distribution	$5,000
10% Penalty	- $500
22% Tax Rate	- $990

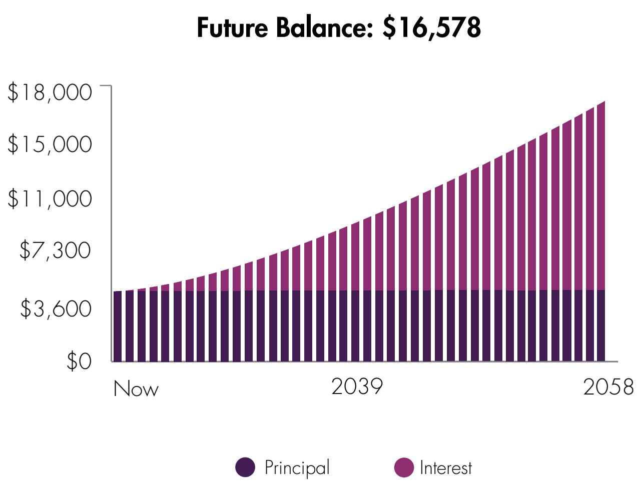
Total: $1,490 in taxes

Left with: $3,510

However, if you leave your money in your IRA until retirement age, you avoid paying the 10% early withdrawal penalty and (if it's a traditional IRA) you won't pay income tax on it until you withdraw it at retirement age, when you will presumably be in a lower tax bracket.

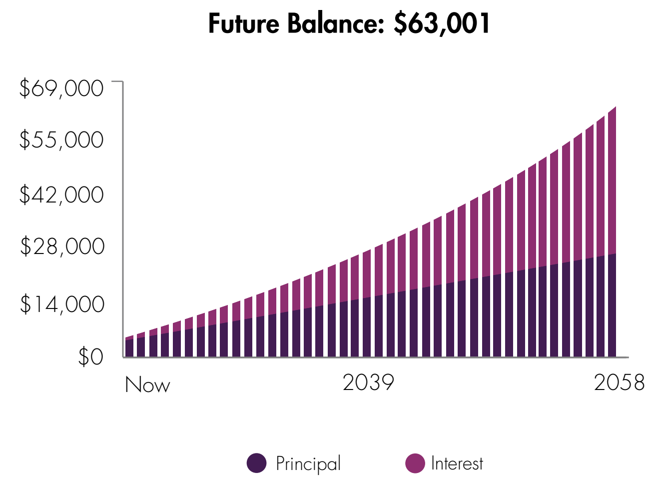
Reason #3: You'll miss out on years of compounded returns.

If you set your new-found money aside for the future, you could benefit from years of compounded returns. This essentially means you earn interest on interest over time. If you invested this money with a conservative approach, a balance of $5,000, with an average rate of return of 3%, for example, could end up being more than **$16,500** in 40 years.



Better yet, if you add just $50 a month to the account, in 40 years you could have **$63,000** saved for retirement – nearly quadrupling your original savings. Imagine that!

*It is important to remember that these scenarios are hypothetical and that future rates of return can't be predicted with certainty and that investments that pay higher rates of return are generally subject to higher risk and volatility. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment. It is not possible to invest directly in an index and the compounded rate of return noted above does not reflect sales charges and other fees that investment funds and/or investment companies may charge.



Reason #4: You'll lose out on potential emergency funds.

Although IRAs were designed to help fund retirement, they can also function as a backup account to help you meet life's challenges.

EXCEPTIONS TO EARLY DISTRIBUTION PENALTY TAX

- Higher education
- First time home buyer
- Health insurance if unemployed
- Disability
- Certain medical expenses
- IRS levy

So, while your IRA is designed to help you save toward retirement, it may also act as a safety net when large expenses arise.

All in all, if you're thinking about putting this money straight in your pocket, you may want to consider the current tax implications, as well as how much it could be worth for you in the future.

To learn more about what's right for you and your savings goals, visit our Financial Calculators at **https://www.mtrustcompany.com/learning-center/financial-calculators**

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