

Options with Deferred Compensation if Laid Off

The determining factor that decides what you can do with your deferred compensation starts with the account balance. If it is above \$5,000 or below \$5,000.

If the account balance is less than \$5,000, then the Internal Revenue Code states that the participant's plan has to be terminated and the assets need to be paid to the participant, transferred to another employer sponsored plan, or transferred to an Individual Retirement Plan (IRA). If the participant decides to take the distribution option, there may be income taxes and penalties assessed. If transferred directly to another retirement plan, if the employer accepts the funds, or to an IRA, there are no taxes or penalties assessed.

If the account balance is over \$5,000, the participant can keep the current account, transfer to a new employer sponsored plan, transfer to an Individual Retirement Plan(IRA), take a distribution (there may be taxes and penalties assed), distribute assets under an Unforeseeable Emergency, or distribute assets under a loan (if the current deferred compensation plan provides for a loan).

If the participant decides to take a distribution, what are some considerations to keep in mind:

- Under Sec. 3405(a) of the Internal Revenue Code, there will be a mandatory 20% withholding.
- Under Sec. 3405(b) of the Internal Revenue Code, there will be a 10% penalty if the participant has not reached the minimum age of 59 1/2.
- The distribution is considered earned income not capital gains, therefore, the distribution could put the participant into a higher tax bracket.

Unforeseeable Emergency:

- This is considered a distribution, therefore the participant will have to pay ordinary income taxes as earned income, but the 10% penalty is waived.
- What is considered an Unforeseeable Emergency:
 - Severe financial hardship to the participant, spouse or dependents due to an unexpected illness or accident.
 - Loss of property due to casualty loss (including the need to rebuild a home following damage to a home not otherwise covered by homeowner's insurance, e.g. as a result of a natural disaster.
 - Similar unforeseeable circumstances arising as a result of events beyond the control of the participant.
 - Supporting documentation must be provided for any unforeseeable emergency withdraw request, e.g. tax return, bank statements, and investment statements.

If the deferred compensation plan offers a loan:

- The participant can borrow up to 50% of their account balance up to a maximum of \$50,000.
- There is a variable interest rate that becomes a fixed interest rate, once the loan is established. The interest rate is calculated from the Prime Rate plus one percent. The interest is paid back into the participant's account.
- A participant has the ability to pay the loan back at a maximum of five years.
- If the participant defaults on the loan, the participant will be taxed on the outstanding balance and there may be additional penalties.
- The loan is non-taxable.

The participant has the ability to rollover their deferred compensation plan to an IRA or to another employer sponsored retirement plan which includes:

- 457(b) Deferred Compensation
- 401(k)
- 403(b)

Usually, the participant contacts the new plan sponsor to complete their application along with their transfer forms. By completing the transfer form, this will allow the participant the ability to rollover their deferred compensation plan asset without assessing income taxes or penalties.

When considering your options, always consult with a tax professional to make sure you are choosing the appropriate option.

Each person has their individual circumstance to consider. The professionals at Prats & Hogsette Financial Group, servicing agency for the Ohio Association of Professional Fire Fighters Deferred Compensation Plan (OAPFF Deferred Compensation) can work with you and your tax professional to help make the appropriate choice. Listed are your OAPFF Deferred Compensation Representatives:

- District 1: Joe Prats, Rob Hogsette, and Rob Friemoth
- District 2: Ken Jones, Rob Friemoth
- District 3: Mark Malnar, Rob Friemoth, Matt Blankenship
- District 4: Rob Hogsette and Joe Prats
- District 5: Matt Blankenship, Joe Prats, and Rob Hogsette

Prats & Hogsette Financial Group and OAPFF Deferred Compensation office staff

- Janet Baker
- Jean Otcasek

Your OAPFF Deferred Compensation Representative can be reached at 1-(866) FIRE-457 (347-3457).

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