

Separation pay  
options

# Strategies to defer taxes on lump sum payments



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is on your side



## What is a lump sum payment?

When you separate from service or retire, you're eligible to receive a lump sum payment. The source of the payout can be:

- A qualified plan, such as a pension
- Unused sick or vacation time
- Back pay or longevity pay
- An early retirement incentive

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Prior to separation, you can choose how your payout will be distributed.

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Eligible payouts can be rolled in or contributed to your 457(b) deferred compensation plan. This allows you to continue deferring taxes until you elect to take a distribution. If you “cash out,” the money will be subject to ordinary income tax.

# Adding a lump sum to the deferred compensation plan

There are many types of lump sum distributions. But if you're considering adding all or part of a distribution to the deferred compensation plan, the key difference is whether it's rolled over or contributed to your account.

## **Contributed assets** — subject to annual IRS limits

- Sick and vacation pay
- Supplemental pay
- Early retirement initiative
- Longevity pay
- Muster-out (Mustren-out)
- Back pay
- Drag-up pay

## **Rolled-over assets** — not subject to annual IRS limits

- DROP
- PLOP
- PLSD
- 175 funds
- 185 funds

## The benefits of adding to your account

Rolling over or contributing a lump sum payout into the deferred compensation plan allows you to:

- ✓ Help increase your chances of having adequate income in retirement
- ✓ Contribute to your account one last time before retiring
- ✓ Defer paying taxes until withdrawal
- ✓ Enjoy tax-deferred growth potential

Please keep in mind withdrawing rolled-over assets could trigger an additional 10% early withdrawal tax, in addition to any ordinary income taxes that may be due. However, you may avoid the additional 10% early withdrawal tax if:

- You are age 59½ or older at withdrawal
- You were separated from service during or after the calendar year you turn age 55 (age 50 for public safety employees\*)
- Distributions are made as part of a series of periodic payments
- Distributions are paid to a beneficiary or due to a disability

## The tax implications of cashing out

If you choose not to add your lump sum payment to the deferred compensation plan, you will receive a lump sum check. Please note:

- The amount will be paid to you as ordinary income for the year and taxed
- You may move to a higher tax bracket

It's important to be proactive and evaluate your options. You may wish to get advice from your tax or legal advisor\*.

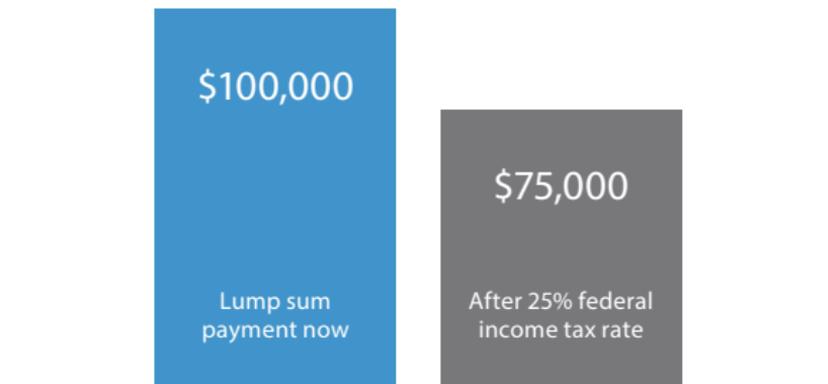
## Explore your options early

It's important to decide before separating from service or retiring how you want your lump sum payment(s) to be distributed. Your Nationwide Retirement Specialist can help you explore your options.

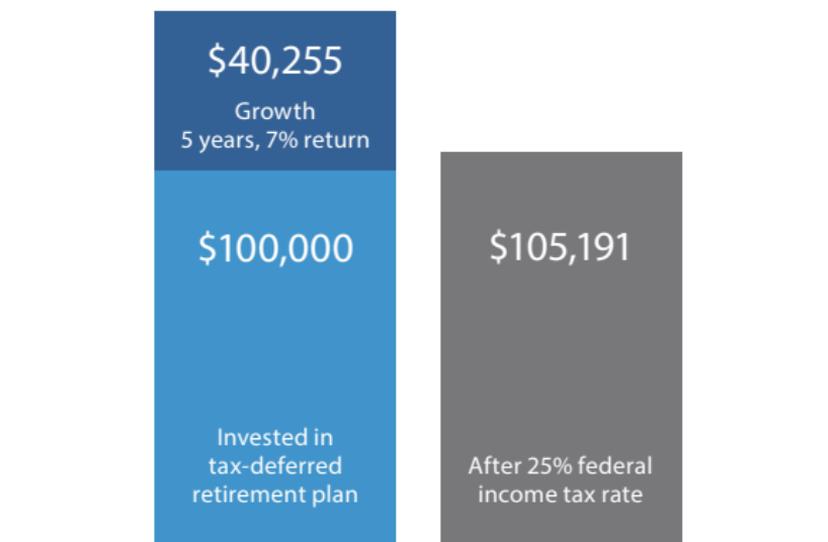
If you have not yet enrolled in the deferred compensation plan, it's not too late. Enroll today to have your lump sum payment rolled over or contributed to your account.

\*Federal income tax laws are complex and subject to change. Neither Nationwide nor its representatives provide legal or tax advice.

# Cash it out now — or invest it for later



Take it out **now**



Take it out **five years later**

Investing involves risk, including possible loss of principal. Assumptions: 7% annual effective interest accumulation phase over 5 years; assumes 25% tax rate. This chart is intended for illustrative purposes only. It offers hypothetical examples and is not intended to predict or project investment results. It does not assume additional taxes, fees or account withdrawals; if it did, results would be lower. The results do not and are not intended to represent the performance of the deferred compensation plan.



To learn more about separation pay options:

- Contact your local Nationwide Retirement Specialist
- Call 855-463-4977
- Visit [nrsforu.com](http://nrsforu.com)

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NRM-5458AO.10 (05/17)



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