

Mv company has a profit-sharing plan. How do these plans work?

Answer:

Your employer-sponsored profit-sharing plan provides for the tax-deferred accumulation of funds in your retirement account. No taxes are levied on the gains in the account until you begin taking distributions (withdrawals) at retirement. A profit-sharing plan is a defined contribution plan in which your employer has discretion to determine when and how much the company pays into the plan. The amount allocated to each individual account is usually based on the salary level of the participant (employee).

Because all of your plan earnings accumulate tax deferred, the IRS will tax the benefits as part of your regular income when you begin making withdrawals. Be aware that if you take distributions before age 59½, they are subject to a 10 percent penalty tax. However, under certain circumstances you can obtain in-service distributions while you are still employed, which may allow you to avoid the age-59½ penalty tax. In-service distributions are possible in an emergency situation, such as being laid off or becoming ill or disabled. As another alternative, you may be able to borrow against your account.

Each plan has a trustee who is generally responsible for managing the plan assets and for preparing various financial and tax documents. Other administrative duties are overseen by a plan administrator, who will frequently hire a third-party administrator to perform most administrative functions. Most plans contain a vesting schedule, often between three and six years, during which time an employee becomes fully vested in the plan. If you were to leave the company prior to full vesting and move your account elsewhere, you would forfeit all or a portion of the account's accumulated value. Profit-sharing plans are usually funded using mutual funds, variable annuities, or life insurance. The summary plan description, available to each eligible participant, spells out the details of your plan.