

A retirement statement might show a balance of \$300,000, but that does not necessarily mean the household has \$300,000 available to spend. The statement reports what the account owns before considering the taxes and rules attached to the money. If the entire balance consists of pretax contributions and investment growth, part of it effectively belongs to the government whenever withdrawals are made. If the account contains Roth money or previously taxed contributions, a different set of rules applies. The account balance tells you how much is there; the tax character of the balance helps determine how much may eventually reach your checking account.

Retirement money can cross an account boundary in several ways, and the name given to the movement matters. A distribution occurs when money or property leaves a retirement account. A withdrawal is the everyday word people use for a distribution taken for personal use. A rollover moves retirement money into another eligible retirement account so that its tax protection generally continues. A transfer usually describes money passing directly between financial institutions, while a Roth conversion intentionally changes pretax retirement money into Roth money and creates taxable income. The same \$50,000 could therefore be tax-deferred, immediately taxable, or partly taxable depending on which of these transactions occurs.

Suppose an employee leaves a job with \$100,000 in a traditional 401(k). If the employee requests a direct rollover, the old plan sends the money directly to a Traditional IRA or another eligible employer plan. The check may physically pass through the employee's hands, but if it is payable to the receiving custodian for the employee's benefit, it is still treated as a direct rollover. Federal income tax is generally not withheld, and the money does not become current taxable income merely because it changed accounts. The old plan will report the distribution, but the tax return should also show that the taxable portion was rolled over rather than kept.

An indirect rollover is less forgiving because the payment is made to the individual. The person generally has 60 days to redeposit an eligible distribution into another retirement account, and an employer plan ordinarily must withhold 20% of the taxable amount. If a \$100,000 401(k) distribution is paid to the employee, the employee may receive only \$80,000 while \$20,000 is sent to the IRS as withholding. Depositing only the \$80,000 means the missing \$20,000 is normally treated as a taxable distribution, even though it was withheld for taxes. To roll over the full \$100,000, the person would need to replace that \$20,000 from another source and later claim the withholding on the tax return. This is one reason direct movement is usually cleaner than having retirement money paid personally. The [IRS rollover guidance](#) explains the direct, trustee-to-trustee, and 60-day methods.

The 60-day route also carries a restriction that is often misunderstood. A person is generally allowed only one indirect IRA-to-IRA rollover during any twelve-month period when all of that person's Traditional, Roth, SEP, and SIMPLE IRAs are considered together. The limitation does not apply to direct trustee-to-trustee transfers, Roth

conversions, or rollovers between an employer plan and an IRA. Missing the 60-day deadline can make the transaction taxable and may produce an excess contribution if the late deposit is left in the receiving IRA. The IRS can grant or recognize certain waivers, but relief should not be assumed before the facts are reviewed.

The destination of a rollover must match the money's tax character. Pretax 401(k), 403(b), TSP, and qualified-plan money can generally move to a Traditional IRA or an eligible pretax employer plan without current federal income tax. Designated Roth money from an employer plan normally moves to a Roth IRA or another employer plan's designated Roth account. Sending pretax money to a Roth IRA is not an ordinary tax-deferred rollover; it is a taxable Roth conversion. A Roth IRA cannot be rolled into an employer's Roth account, and a required minimum distribution cannot be rolled over at all. The receiving employer plan is also not required to accept every type of rollover, so eligibility should be confirmed before the old account releases the funds.

Some workplace accounts contain both pretax money and employee contributions that were taxed before they entered the plan. Those previously taxed dollars are called after-tax basis, and they should not be taxed a second time. When a qualifying distribution is sent to multiple destinations at the same time, it may be possible to direct the pretax portion and its earnings to a Traditional IRA while directing the after-tax contributions to a Roth IRA. A person generally cannot take only the after-tax portion from a mixed account while leaving all pretax money behind; partial distributions usually carry a proportionate share of each. The instructions must therefore be coordinated among the old plan and both receiving custodians. The [IRS guidance for after-tax rollovers](#) illustrates how these amounts may be separated.

Leaving a job usually presents four broad choices: retain the money in the former employer's plan if permitted, move it into the new employer's plan, roll it into an IRA, or cash it out. Cashing out ends the retirement shelter and may create income tax plus an additional early-distribution tax. Keeping the old plan may preserve low institutional expenses or investments that are unavailable elsewhere. Consolidating with the new employer may simplify recordkeeping and sometimes preserve access to plan loans. An IRA may provide wider investment selection and greater control over withdrawals. None of those destinations is automatically superior because fees, investments, service, legal protections, and withdrawal rules can differ considerably.

A rollover can quietly remove benefits that cannot be restored afterward. Assets in many employer plans receive strong federal creditor protection, while IRA protection outside bankruptcy depends partly on state law. A former employer's plan might offer a stable-value fund, subsidized investments, or—in the TSP—the unique G Fund. Someone separating from employment during or after the year they reach age 55 may be able to withdraw from that employer's qualified plan without the usual 10% early-distribution tax; moving the balance into an IRA generally eliminates that particular opportunity. Rolling pretax money into an IRA can also complicate a future backdoor Roth strategy because the IRA pro-rata calculation includes Traditional, SEP, and SIMPLE IRA balances. These

are reasons to inspect the existing plan before treating an IRA rollover as an automatic next step.

Employer stock introduces another decision. Under a specialized rule called net unrealized appreciation, qualifying company shares may sometimes be distributed from an employer plan to a taxable brokerage account. The plan's cost for the shares is generally taxed as ordinary income when distributed, while the appreciation that occurred inside the plan may be deferred and later taxed under capital-gain rules when the shares are sold. The transaction must satisfy strict lump-sum and triggering-event requirements, and rolling the shares into an IRA normally gives up the opportunity. Because taxes, concentration risk, and the stock's cost basis must be evaluated together, employer stock should be reviewed before completing a full rollover. The IRS provides an overview under its [lump-sum distribution guidance](#).

When pretax retirement money is withdrawn for personal use, it is generally taxed as ordinary income—not as a capital gain—even if the investments inside the account were stocks held for many years. A \$40,000 traditional IRA withdrawal can therefore increase gross income by approximately \$40,000 if the account contains no after-tax basis. Pension payments and traditional employer-plan distributions are treated similarly, except that any documented employee basis may allow part of a payment to escape taxation. State treatment can be different: some states tax retirement income normally, some provide exclusions, and others impose no individual income tax. The amount withheld by the custodian is merely a tax prepayment and does not establish the actual tax owed.

Traditional IRAs become more complicated when nondeductible contributions are present. Form 8606 records this after-tax basis and calculates how much of a distribution or Roth conversion is taxable. The owner ordinarily cannot point to one IRA and claim that its distribution came entirely from after-tax dollars. For this calculation, all Traditional, SEP, and SIMPLE IRAs are generally combined, and the year-end balances are considered along with that year's distributions and conversions. If 10% of the combined value represents after-tax basis, roughly 10% of a covered distribution may be nontaxable rather than the person being allowed to withdraw the basis first. Missing Forms 8606 can cause someone to pay tax twice because the IRS may have no clear record that part of the account was already taxed.

Roth IRAs work differently. A withdrawal is considered to come first from regular Roth IRA contributions, then from conversion and rollover amounts beginning with the oldest, and finally from investment earnings. Because regular contributions were already taxed, their return is normally free from federal income tax and the 10% additional tax. Earnings receive full Roth treatment only when the distribution is qualified, which generally requires completion of the Roth IRA five-tax-year period and a qualifying event such as reaching age 59½, disability, death, or an eligible first-home distribution. This ordering system applies across a person's Roth IRAs as though they were one combined Roth

IRA. The IRS explanation of Roth IRA distributions contains the qualification and ordering rules.

There are actually two five-year concepts surrounding Roth money. The first determines whether Roth IRA earnings can be distributed as part of a qualified, tax-free withdrawal. It generally begins with the first tax year for which the person made a contribution or conversion to any Roth IRA. The second applies separately to each taxable conversion and can matter when converted money is removed before age 59½; its purpose is to prevent someone from using a conversion to escape the early-distribution rules immediately. A person may have completed one five-year period but not another. This distinction is especially important for someone planning to use Roth conversions to finance retirement before age 59½.

A Roth conversion means choosing to recognize income now so that the converted amount can enter the Roth system. If \$60,000 of untaxed Traditional IRA money is converted, approximately \$60,000 is added to that year's taxable income, even though the person does not receive the money for spending. The conversion itself is not subject to the 10% additional tax merely because the owner is younger than 59½, but withholding taxes from the converted funds can leave a separate amount outside the Roth and potentially exposed to tax and penalty. An RMD must be taken first and cannot be included in the conversion. Conversions are generally irreversible, so a market decline after the transaction does not allow the taxpayer to undo it and reclaim the tax.

A conversion is most useful when its full tax effect is measured rather than when someone simply asks, "Can I afford the tax?" Additional income may occupy a higher federal or state tax bracket, increase the taxable portion of Social Security, raise future income-related Medicare premiums, or reduce income-based benefits. On the other hand, carefully sized conversions during lower-income years may reduce future pretax balances and required distributions. Converting \$200,000 in one year and converting \$40,000 annually for five years can produce very different results even though the same total amount moves to Roth. The calendar year chosen for the income can matter as much as the account chosen for the money.

Early withdrawals add another layer. Before age 59½, the taxable portion of many IRA and qualified-plan distributions is generally subject to ordinary income tax plus a 10% additional federal tax unless an exception applies. This extra amount is commonly called a penalty, although the tax code describes it as an additional tax. An exception removes the additional tax; it does not necessarily remove ordinary income tax. A \$20,000 penalty-free traditional IRA distribution can still add \$20,000 to taxable income. That difference should be understood before "penalty-free" is mistaken for "tax-free."

The available exception depends on the type of account and the reason for the payment. Death, qualifying disability, certain medical expenses, qualified birth or adoption expenses, certain disaster distributions, domestic-abuse distributions, and limited emergency-expense distributions are among the possibilities. IRAs have exceptions for

qualified higher-education expenses and up to a \$10,000 lifetime amount for a qualifying first home, but those particular exceptions do not generally apply to 401(k) distributions. A qualified domestic relations order may protect a payment from an employer plan, but the same terminology does not govern an IRA transfer incident to divorce. Substantially equal periodic payments can provide another route, although the schedule is restrictive and changing it too early can cause prior additional taxes to be recaptured. The distinctions are summarized in the [IRS early-distribution exception table](#).

The separation-from-service exception deserves special attention because account location controls whether it survives. If an employee leaves an employer during or after the calendar year in which the employee reaches age 55, eligible withdrawals from that employer's plan may avoid the 10% additional tax. The exception generally does not cover an IRA or plans belonging to employers left in earlier years. Certain qualified public-safety employees may use an earlier age. Governmental 457(b) plans have another distinctive rule: their distributions generally are not subject to the 10% additional tax, although money rolled into the 457(b) from another kind of plan or IRA may retain different treatment.

A hardship withdrawal is not a temporary loan from the account. It permanently removes money, is generally taxable to the extent it contains untaxed funds, and ordinarily cannot be rolled over. A plan loan, by contrast, is not normally taxable when it complies with the plan and is repaid on schedule. Trouble begins when employment ends or payments stop, because the outstanding balance may be treated as a taxable distribution. Some plan-loan offsets receive an extended rollover deadline, but a participant should not assume every loan default can be repaired later. The loss includes more than the original dollars: money removed from the account also loses its opportunity for future tax-deferred or tax-free growth.

Eventually, federal law may require withdrawals even if the owner would prefer to leave the money invested. These are required minimum distributions, or RMDs. People born from 1951 through 1959 generally begin at age 73, while those born in 1960 or later generally begin at age 75. Traditional, SEP, and SIMPLE IRAs are subject to these rules even if the owner continues working. A current employer's plan may allow a non-5% owner who is still employed to postpone that plan's RMD until retirement, but the exception does not postpone RMDs from Traditional IRAs or former employers' plans. Roth IRAs and designated Roth workplace accounts have no lifetime RMDs for their original owner under current law, although beneficiaries remain subject to distribution rules. The [IRS RMD guidance](#) and the Treasury's [RMD regulations](#) describe these requirements.

An RMD is usually calculated by dividing the previous December 31 account value by an IRS life-expectancy factor. The first RMD may generally be postponed until April 1 of the following year, but postponement can place the first and second RMDs in the same calendar year because later RMDs are due by December 31. That doubled income can produce a larger tax bill or affect other income-based calculations. IRA RMDs must be

calculated separately, although the combined amount may generally be withdrawn from one or more Traditional IRAs; 403(b) contracts have a similar aggregation provision. RMDs from 401(k), 457(b), and other employer plans generally must be satisfied separately from each plan. An RMD cannot be rolled over or converted, and a missed amount may face a 25% excise tax, potentially reduced to 10% when corrected within the permitted period.

Charitably inclined IRA owners receive a special option beginning at age 70½, even if their RMD age is later. A qualified charitable distribution, or QCD, sends money directly from an eligible IRA to a qualifying charity. The eligible amount is excluded from income and can count toward the year's RMD, but it cannot also be claimed as a charitable deduction. The transfer must be completed correctly; withdrawing the money personally and later writing a check to the charity does not convert that withdrawal into a QCD. For 2026, the annual exclusion limit is \$111,000 per eligible individual, as confirmed in [IRS Notice 2025-67](#).

Retirement withdrawals should therefore be planned as part of the household's entire tax return. Taking extra pretax money may fill a low tax bracket intentionally, but taking too much can make more Social Security taxable, raise Medicare premiums in a later year, or cause investment income to cross another tax threshold. Using Roth money can limit taxable income, yet spending Roth assets too quickly may sacrifice years of tax-free growth and reduce what remains for later expenses or heirs. Selling investments in an ordinary brokerage account can generate capital gains rather than ordinary income and may be preferable in some years. There is no withdrawal order—such as always spending taxable accounts first—that produces the best result for every household.

Death does not remove the account's rules; it changes who must follow them. A surviving spouse often has the choice to retain an inherited account or roll eligible money into an account treated as the spouse's own. A nonspouse beneficiary generally cannot combine inherited IRA money with a personal IRA and must preserve the inherited registration. Many nonspouse beneficiaries are subject to a ten-year deadline, while surviving spouses, minor children of the owner, certain disabled or chronically ill individuals, and people not more than ten years younger may qualify for different treatment. Whether annual distributions are required during the ten-year period can depend on when the owner died and whether the owner had reached the required beginning date. The [IRS beneficiary guidance](#) explains the principal categories.

A sound transaction begins before any check is requested. The owner identifies whether the money is pretax, designated Roth, or after-tax basis; confirms whether the payment is rollover-eligible; compares the protections and features of the present and proposed accounts; and determines what income the move will place on the tax return. Instructions are obtained from both institutions, names and account numbers are checked, confirmations are saved, and the eventual Forms 1099-R, 5498, and 8606 are reviewed for consistency. If employer stock, an outstanding loan, an RMD, inherited money, or mixed

after-tax contributions are involved, professional tax review may be worth obtaining before—not after—the account is emptied.

Retirement taxes are not determined solely by how much an investment earned. They are also shaped by where the money was held, how it crossed from one account to another, when it became income, and which rules applied on that particular date. A rollover preserves retirement status, a conversion exchanges present taxation for potential future Roth treatment, and a withdrawal turns accumulated savings into usable income. Understanding those distinctions allows the number printed on an account statement to be translated into the amount the household can actually keep and spend.