

# PROCTER & GAMBLE 4Q PLANNING FOCUS

## *Profit Sharing Trust – Five Distribution Options at Retirement*

Upon separation from service, Procter & Gamble employees have several options regarding how to manage and invest their Profit Sharing Trust. These choices should be carefully reviewed in consideration of your personal investment objectives and tax situation. Our team can work with you to design a personalized strategy after learning about your goals and particular financial situation. But first, let's go over your potential options.

### **Option #1 Stay in the Profit Sharing Trust**

After separating from service, you can leave all of your funds in the Profit Sharing Trust. In this case, no action is required, and you would access your account via the same retirement plan provider that you have used during your time with P&G. While cost effective, this choice has several limitations that may not be advantageous for everyone.

First, the investment choices are limited to roughly a dozen funds. You cannot invest in individual securities, and you must maintain a 40% concentration in P&G stock. Secondly, you lack access to professional guidance, leaving you to manage the investments using the options available within the plan. Last, all distributions are taxed as ordinary income. Participants who stay in the plan will not be able to take advantage of the potential tax savings associated with NUA (Option #5 below)

### **Option #2 Full Taxable Income**

Using this option, a participant would take a full withdrawal of their funds and pay ordinary income tax on their entire balance, likely at the highest income tax rate. Withdrawals made after age 55 are penalty-free. This choice may not be optimal for most people due to its tax inefficiency.

### **Option #3 Annuity**

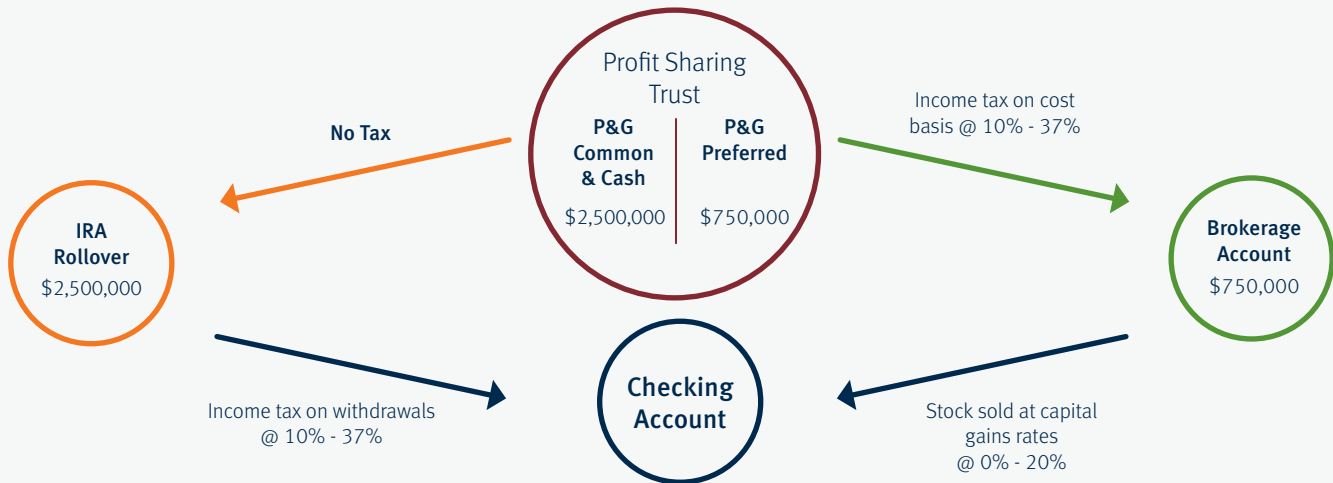
The annuitization distribution method converts the entire balance of the Profit Sharing Trust into a stream of payments for life. This can result in additional fees, and the individual loses control once the election is made. As in Option #2, all payments are taxed as ordinary income. Moreover, participants are not able to shop the marketplace for an annuity that may be more suitable and may only use the annuity schedule set by the Profit Sharing Trust. Because of these limitations, this option is rarely selected by plan participants.

### **Option #4 IRA Rollover**

With this option, the participant rolls over their entire balance into an Individual Retirement Account (IRA). This transaction is not taxable, and the entire balance remains tax-deferred. The participant has the freedom to invest in any available investment within the IRA, and distributions are taxed as ordinary income. Withdrawals from the IRA prior to age 59 ½ are subject to a 10% early withdrawal penalty.

## Option #5 Net Unrealized Appreciation (NUA)

This distribution choice is a combination of an IRA rollover and withdrawal of P&G preferred stock. P&G preferred stock shares all have a uniformly low cost basis of \$6.82 per share. When electing NUA, the preferred shares are withdrawn from the retirement plan and deposited into a taxable brokerage account or a trust account. The participant pays income tax on the \$6.82 basis in the year of the distribution, and the balance between the market price and the \$6.82 basis remains an unrealized gain taxed at capital gains rates. As capital gains rates are currently lower than ordinary income tax rates (with rates as low as 0% at the Federal level for the 10% and 12% income tax brackets), this strategy offers significant tax advantages. Also, electing NUA for the P&G preferred shares provides an income bridge for participants, as P&G preferred shares can be sold for retirement income until the participant reaches age 59 ½.



### Conclusion

Your distribution choice should be based on your personal situation, as it can have major financial and tax implications. Our team is well versed in these choices and can offer valuable perspective regarding the choice that is best for you after gaining a fuller understanding of your financial picture and plans after your working career. Please contact us to start a discussion about the choice that may be best for you and your family.

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(513) 904-6500 | [www.ewc-stifel.com](http://www.ewc-stifel.com)

Thomas E. Lieser, Jr., CFP®  
Managing Director/Investments  
Branch Manager

Tom L. Awadalla, CFP®  
Senior Vice President/Investments

Leigh Anne Gage, CFP®  
Senior Vice President/Investments

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221 East Fourth Street, Suite 2800 | Cincinnati, Ohio 45202  
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