



3M Employees - The in-service withdrawal option at age 59 1/2 provides you with an important opportunity to make some changes to your 3M 401(k)/VIP* plan that may be advantageous to your retirement plan.

As a 3M employee and participant in the 401(k)/VIP plan, the in-service withdrawal option at age 59 1/2 provides you with an important opportunity to make some changes that may be advantageous to your retirement plan. At this point, you may roll your entire 401(k) balance tax and penalty-free to an individual retirement account (IRA), even if you continue working. Whether this is in your best interest depends on your personal and financial situation. Before you make that decision, here are some things to consider.

The advantages of an in-service withdrawal include:

1) The opportunity to access significantly more investment choices and asset classes through an IRA rollover. This may provide for greater diversification than what is available through the 17 investment options currently offered within the 3M 401k plan (assuming you don't access the Schwab 401(k) options.)

2) The ability to avoid having to take pro-rata distributions from the 3M 401(k) in retirement. The pro rata rule requires that distributions from your 3M 401(k) be taken equally from all asset classes, including the more aggressive components. By rolling over to an IRA, Landmark Group can help implement a retirement distribution strategy that allows short-term withdrawals from conservative allocations while long-term investments can be left to grow in more aggressive portfolios. This strategy avoids having to sell or distribute amounts for retirement when markets are down.

3) If you roll your 3M 401(k) over to an IRA, you can continue to make contributions to your 3M 401(k) and be eligible for company matches as long as you are still employed by 3M.

4) The opportunity to receive tax-free treatment on the earnings from the after-tax contributions that may be embedded in your 3M 401(k) balance. If you contributed during your employment at 3M to the personal thrift account (PTA --which is no longer available), there may be after-tax contributions included in your 401(k) value. Unfortunately, all prior earnings from the PTA amount within your 401(k) will be taxable upon distribution. However, an opportunity exists through an in-service withdrawal at 59 ½ or later to do a partial rollover of just the after- tax contribution amount to a Roth IRA. After the tax-free rollover, the future earnings from the after-tax (PTA) amount will grow tax-deferred in the Roth IRA and once it's been at least five years since the first contribution or conversion to the Roth IRA, the future earnings will be tax free.

5) Better control and coordination over your estate plan. Your third-party administrator (Aon-Hewitt) mandates a 120-day period after the death of the 3M 401(k) plan participant during which a non-spouse beneficiary must act to avoid lump sum distribution treatment. If this does not take place, a significant portion (up to 35-45% of the plan value) could be lost due to federal and state income taxes.

Todd Gillingham, Landmark Group Wealth Advisor, offers a hypothetical example, for illustrative purposes. Suppose that a plan participant and spouse die in a tragic car crash, leaving the 3M 401(k) to their two children. Whether the children are adults or minors, either they or the designated guardian/trustee must act quickly to avoid the draconian lump sum tax treatment of the entire 401(k) value. In addition to grieving the loss of their parents, the child or guardian/trustee must notify 3M of the death of their parents, communicate their intention to not seek lump sum distribution, and establish individual inherited IRA accounts to receive the inheritance -- all within 120 days. This 120-day rule can be avoided by rolling the 401(k) to an IRA provider that performs the required minimum distribution (RMD) calculations for non-spouse beneficiaries.

6) The opportunity to move your 3M Roth 401(k) dollars to a Roth IRA, thereby avoiding having to take Required Minimum Distributions (RMDs) on those investments at age 70 ½.

Roth 401(k)s are subject to the RMD rules at 70 ½ -- just like traditional 401(k)s -- while Roth IRAs are not.

7) The ability to make Qualified Charitable Distributions (QCDs). QCDs can only be gifted from traditional IRAs — not 401(k)s

While a rollover to an IRA has advantages, there are some disadvantages associated with in-service withdrawals from a 401(k). They include:

1) There may be increased costs associated with an IRA, such as an Assets Under Management (AUM) fee.

2) Taking distributions from a traditional IRA before 59 ½ will result in an early-withdrawal penalty and possible tax consequences. If you leave 3M at age 55 or later, you can take distributions, subject to ordinary income tax, but avoid the IRS 10% early withdrawal penalty.

For more information about the advantages and disadvantages of in-service withdrawals and to discuss the in-service withdrawal option in the context of your particular financial situation, please contact the Landmark Group of Thrivent Financial.

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*3M Voluntary Investment Plan (VIP)/Savings Plan.

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