

Guide to Rollovers: Helping You Choose Wisely



Leaving a job, regardless of the circumstances, is a significant life change that generates its own “to do list.” One important item on that list is deciding what to do with the money you’ve built up in your employer-sponsored retirement plan. While it’s important to take time to think about what to do with these assets, you should also make sure you understand the different options available to you.

When you leave an employer you usually have four options for what to do with the money you’ve accumulated in the company’s 401(k) or other retirement savings plan:

- 1 Keep assets in your former employer’s plan (if permitted)
- 2 Roll over assets to your new employer’s plan (if permitted)
- 3 Take a distribution or “cash out”
- 4 Roll over assets to an IRA

Option 1

Keep assets in your former employer’s plan (if permitted)

This option can be the least complex as there is little or no paperwork.

Some advantages to this option include:

- Protecting the tax deferred status of the funds.
- Penalty-free withdrawals may be available if you terminate employment after age 55.
- Maintain assets in the way you previously felt comfortable, potentially including employer stock or certain proprietary investments.
- Funds may be protected from creditors.
- You may be able to take a loan.

Some of the disadvantages are:

- Limited investment choices, because you’ll continue to be restricted to the investments that are part of the plan.
- Lack of coordination with your other assets, because keeping your money in a separate plan makes it difficult to keep your overall asset allocation and performance on track.
- Inefficiency, because given the frequency of job changes in today’s economy, over time this approach could leave you with assets in several different plans.
- Required minimum distributions (RMDs) must begin at age 70½.

There’s also the possibility that you may not be allowed to stay in your existing plan.

Option 2

Roll over assets to your new employer’s plan (if permitted)

This option shares many of the advantages and disadvantages as Option 1, with a few differences:

- You may be able to avoid Required Minimum Distributions (RMDs) from this plan if you are still working after 70½.
- Penalty-free withdrawals at age 55 may not be available.
- Investments from former employer’s plan may not be available in the new plan.
- Your new employer may not allow rollovers into its plan.

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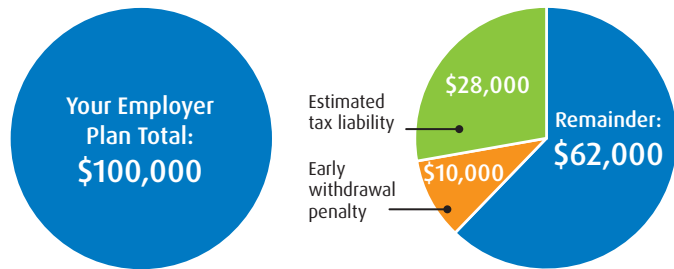
Option 3

Take a distribution or “cash out”

This one may be tempting—extra cash in these uncertain times is always welcome—but it can be an expensive temptation.

When you cash out, all the money is taxed as regular income. And, if you’re below age 59½, you’ll probably face an additional 10 percent federal tax penalty on the entire amount.

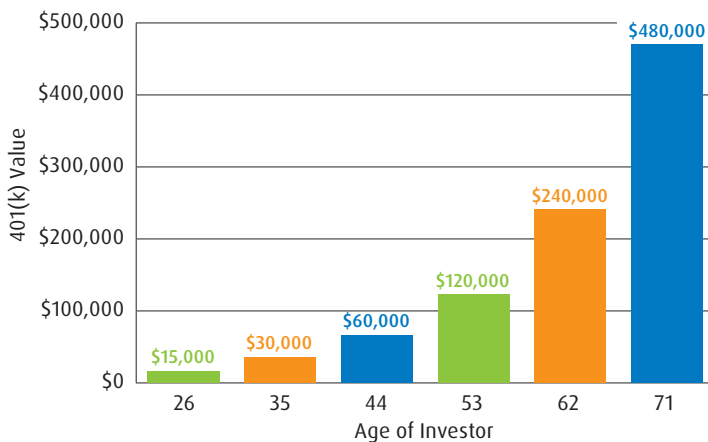
Here’s an example, assuming that you’ve built up \$100,000 in your plan account:



Not shown in the example above is the loss of potential gains the funds may have enjoyed had you kept that money growing tax-deferred.

And, even if you invest the money after you cash out, you may have to pay tax on your gains and income each year.

Example of a retirement plan balance showing tax-deferred growth:



Assumes an annual rate of return of 8%. Does not include any additional contributions. This example does not take into account taxes and possible penalties applicable to the tax-deferred plan upon withdrawal. Actual rate of return and principal will vary.

Other distribution considerations:

- Your distribution may push you into a higher tax bracket.
- You have just 60 days to put the distribution back into a tax-deferred account. After that, your decision is irrevocable.
- Distributions are typically subject to mandatory 20% federal tax withholding.

Option 4

Roll over assets to an IRA

This option comes with some significant advantages:

- Protecting the tax-deferred status of the funds.
- You’re able to consolidate retirement assets and those assets will continue to grow on a tax-deferred basis.
- The option to convert to a Roth IRA is available and may offer tax benefits.

Also, this option typically allows you to work with a financial advisor to help you choose from a greater variety of investments that may be in sync with your individual financial goals. When you work with a BMO Harris Financial Advisor, you have someone to help you select the products and services that may be right for you.

Rolling over to an IRA does have some disadvantages, however.

- Fees may be higher in an IRA than in an employer-sponsored plan.
- You are not able to take a loan from an IRA and you will be required to take RMDs at age 70½ for Traditional IRAs.
- Also, you will want to consider fees and expenses, as costs based on the products and services you choose may vary.
- Indirect rollovers are subject to mandatory tax withholding and must be completed in full within 60 days. Consult your tax or legal professional regarding your specific situation.
- Finally, you may lose protection from creditors previously afforded to assets in retirement plan accounts.

What if my former employer’s plan contained company stock?

If you held company stock in your plan, you may need to liquidate, or sell, these holdings when you make a direct rollover.

Your BMO Harris Financial Advisor can help you determine what your options are, and provide you with guidance on how to proceed.

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Choose wisely

If, after carefully evaluating your options, you decide to roll your retirement plan assets into an IRA, you will then need to choose how to invest within the IRA. When you work with your BMO Harris Financial Advisor, you'll have access to a wide range of products and services that address different goals, as well as varying levels of risk tolerance.

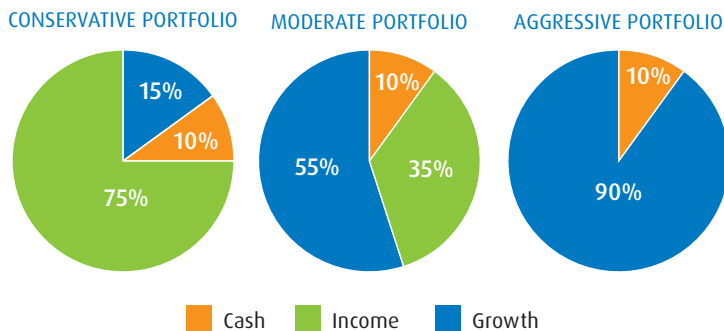
Your Financial Advisor will help you determine the appropriate allocation of stocks, bonds and cash equivalents to match your investment risk tolerance, time horizon and financial goals. Working together, you can begin to construct your portfolio.

Here are some things to consider:

- Even if you're very close to retirement, you may want to hold some stock funds in your IRA. People are living longer and retirement years are spanning decades, so you may want to pursue some growth as well as income as a hedge against inflation.
- Conversely, even if you're young, you may want to hold some bond funds or even cash in your IRA, which can help you withstand volatile markets.
- At least once a year you should review your holdings with your BMO Harris Financial Advisor and make changes as needed.

Based on your personal portfolio and current market conditions, your Financial Advisor can help you determine which option may be right for you.

Basic Allocation Models



Are you close to retirement?

If you're not creating a rollover IRA, but getting ready to start funding your retirement, you have a few extra things to think about.

Take a look at your sources of income

Factor in any pensions or annuities you may have, as well as other IRAs or retirement plan assets. Your BMO Harris Financial Advisor can help with developing an overview and making sure your assets will work well together.

Understand how to change your asset allocation

Now that you're ready to begin using your savings, you may need to adjust how your assets are invested. Your money should continue to work for you and yet provide you with adequate income.

Prepare a spending plan

Map out a plan that matches your income sources to your spending. Starting this process even before you retire can help you to correct any imbalances before they become a problem.

Understand rules regarding distributions

During retirement, you'll have to make sure that you're taking enough money out of your tax-deferred accounts each year to avoid tax penalties.

The rules governing RMDs are complex and the exact amount of RMDs varies with each individual. As a result, this is an area where many investors find working with a Financial Advisor to be especially helpful. Although RMDs don't take effect until you reach age 70½, planning ahead can help your money last longer and keep your tax bill down.

Along with Social Security, corporate pensions, and employer-sponsored retirement plans, IRAs are likely to play an important role in funding your retirement. Keeping everything in focus can be a significant challenge, but one that you can handle with some help.

If you have general questions about IRAs, or would like more information about the options available to you, contact your BMO Harris Financial Advisor.

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