

Wherever you are
Wherever you are going



Guide to rollovers

Career changes can be among the most important events in your life. Accepting a new job can mean a dramatic change for the better, both in terms of income and personal satisfaction. And, after decades of pursuing and achieving workplace goals, retirement can bring a welcome change of pace.



A time of transition

These transitions involve many exciting opportunities and challenges, which can make it easy to lose sight of other important matters. One of these is deciding what to do with the money you've built up in your employer-sponsored retirement plan. To avoid making a mistake that could prove costly both in the immediate future and in years to come, it's important to take time out to think about what to do with these vital assets.

Our Distribution and Retirement Planning Specialists are professionals who can help you understand your retirement savings choices, and make it easy for you to put a plan in place. On the next several pages, you'll get an overview of your options for managing your retirement money when you change jobs or retire. Learning more now is an important first step toward securing these assets for the future.

Your rollover options

You choose

When you leave an employer, whether it's to retire or take a new job, you usually have three options available to you when determining what to do with the money you've accumulated in your company's 401(k) or other retirement savings plan.

These are:

- leave the money in the plan or roll the money over to your new company plan;
- take a taxable distribution; or
- roll the money over into an Individual Retirement Account (IRA).

The choice you make can have significant financial impact, both right away and when the time comes to retire. So, it's important to understand the pros and cons of each.



Option 1: keep your money in the plan

The appeal of this choice is pretty clear: it's simple, requires little or no paperwork, does not result in any tax implications or penalties, and if you leave it in your existing plan, doesn't call for you to make any changes. But, that simplicity can conceal some disadvantages.

- **Limited investment choices.** You'll continue to be restricted to the investments that are part of the plan, which may not be suited to your individual needs.
- **Lack of coordination.** If you leave your money where it is, your assets will remain in a separate plan, potentially making it more difficult for you to keep your overall asset allocation and performance on track.
- **Inefficiency.** Given the frequency of job changes in today's economy, over time this approach could leave you with assets in several different plans, and a chaotic array of investments; or in a situation of selling assets out of your old plan and reinvesting through your new plan solely because of a job change.

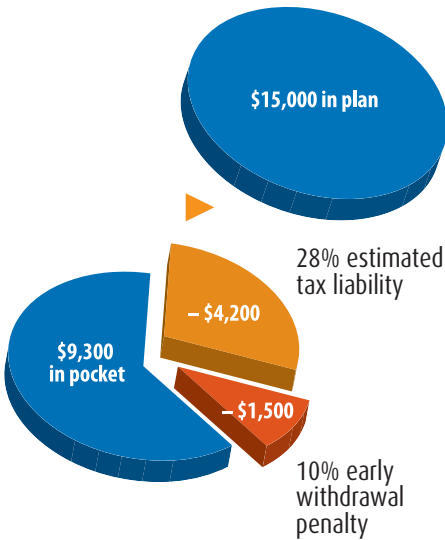
Leaving your assets in your employer's plan, whether it's your existing or new plan, may appear simpler in the short run, but before very long it can create extra hassles and make it more difficult for you to pursue and achieve your investment goals. Depending on your plan balance, you may not be allowed to remain in your existing plan, or your new employer may not accept rollovers, depending on specific plan parameters.



Option 2: take a distribution or “cash out”

Many times, making a career change is a time to celebrate, and a little cash can go a long way toward making things more festive. But, if you take a lump sum distribution from your plan to splurge on a major purchase, or just to have the cash on hand, that decision can be more expensive than you ever imagined.

Here’s an example, assuming that you’ve built up **\$15,000 in your plan account:**



▲ $\$15,000 \text{ in plan} - \$4,200 \text{ (28\% estimated tax liability)} - \$1,500 \text{ (10\% early withdrawal penalty)} = \$9,300 \text{ in pocket}$

Why? Because when you cash out, all the money withdrawn is taxed as regular income. And, if you're below age 59½, you'll probably face an additional 10% federal tax penalty on the entire sum. The money you worked so hard and long to accumulate can be eroded in a flash. (See illustration on p.5).

In other words, if you keep your money working for you, all of that \$15,000 remains yours. If you choose to cash out, you'll face the future with potentially 38% less.

What's worse, you lose the opportunity to have your money continue to grow tax-deferred. Even if you invest the money after you cash out, you'll have to pay tax on your gains and income each year, taking a further toll on the amount of money left for the future.

Some additional points to consider:

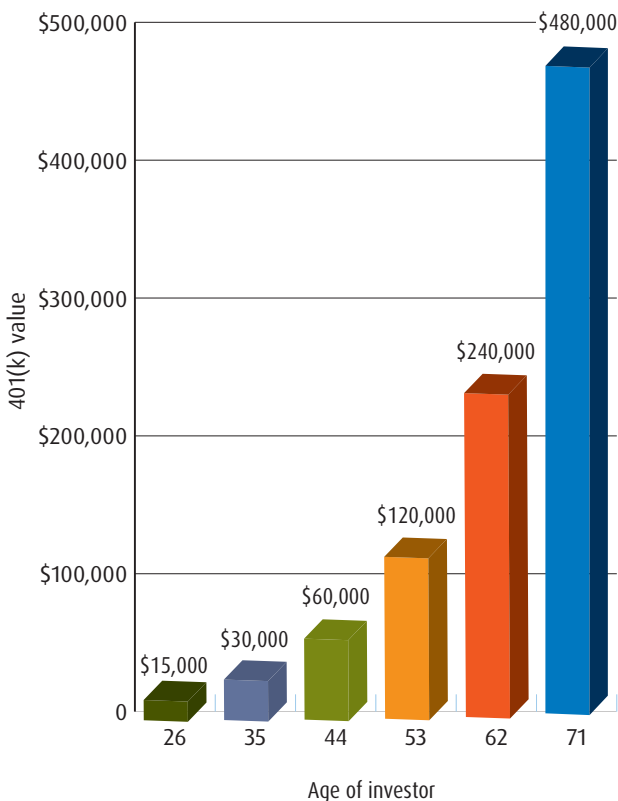
- **Your distribution may very well push you into a higher tax bracket**, further raising your overall tax liability.
- **If you have a genuine need for some cash in the short term**, a loan or other financing may prove far less costly.
- **Once you take a distribution, you have just 60 days to put it into a tax-deferred account.** After that, your decision is irrevocable. Additionally, most distributions are subject to a mandatory 20% federal tax withholding. If you choose to roll over your distribution, to avoid tax on the full amount, you will need to add that 20% withheld to your rollover, funding it out of pocket. That withholding will be credited back to you at tax time, but coming up with 20% of your distribution can be a challenge.

Option 3: roll your money over to an IRA

This choice offers you the opportunity to avoid a hefty tax bill now, and to have more money working for you in the future.

You've already seen how taxes can devastate your retirement savings. Here's a look at how keeping that money invested, tax-deferred, can help your nest egg grow:

Potential growth of a retirement plan balance left untouched



▲ Assumes an 8% annual rate of return with dividends and capital gains reinvested and no additional contributions.

This example is for illustrative purposes only. It does not reflect the result of any particular investment, which will fluctuate with market conditions. Regular investing does not ensure a profit or protect against a loss in a declining market. The example is based on assumptions of future events and actual results may vary greatly from the projections presented. There can be no assurance that the retirement plan balances will prove to be accurate.

When you have many years to retirement, tax-deferral can help smaller sums grow significantly. Even if retirement is closer on the horizon, deferral allows you to postpone taxes until you actually use the money — a powerful benefit.

Rolling your retirement plan assets directly into an IRA allows you to avoid paying tax and penalties, keeps your money growing tax-deferred, and allows you to choose from a variety of investments that may be in line with your individual financial goals. And, when you work with one of our Distribution and Retirement Planning Specialists, you'll have someone to help you review those investments.

What if my former employer's plan contained company stock? If you held company stock in your plan, it will be important to ask your IRA provider whether the stock can be transferred in-kind to your new IRA, or if you will need to liquidate, or sell, these holdings. Our Distribution and Retirement Planning Specialists can help you review the choices you have for reinvesting this money in your IRA.



Choose wisely

Choosing your investments

Once you've made the decision to roll your retirement plan assets over into an IRA, it's time to begin to pick your investments. When you work with our Distribution and Retirement Planning Specialists you'll have access to a wide range of funds that address different investment goals, as well as varying levels of risk tolerance.

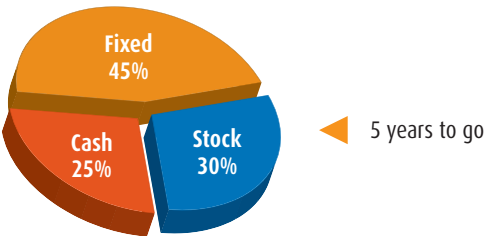
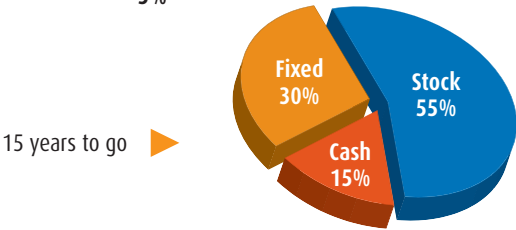
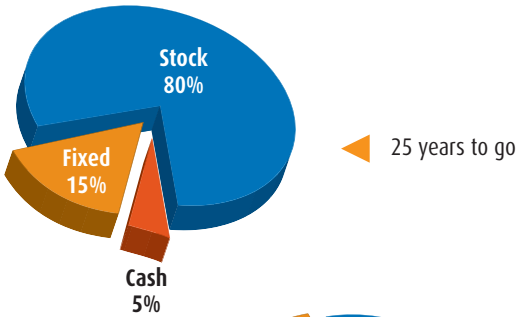
Your Distribution and Retirement Planning Specialist will first help you determine the proportion of stocks, bonds and cash equivalents that fits in with your tolerance for investment risk, the number of years you have until retirement and your financial goals. You can then use this information to identify the funds for your portfolio.

Points to consider:

- **Even if you're very close to retirement**, it may make sense to hold some stock funds in your IRA. With people living longer and retirement spanning over decades, you may want to pursue some growth as well as income.
- **Conversely, even if you're young**, you may wish to hold some bond funds or even cash in your IRA. These holdings can help you withstand volatile markets.
- **About once a year or so**, you'll want to review your holdings with your Distribution and Retirement Planning Specialist and make changes as needed.

Your Distribution and Retirement Planning Specialist can help you determine which option may be right for you.

Amount of time to invest



These are sample portfolios and should not be construed as advice.

Are you close to retirement?

When you're ready to retire

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

Take a look at your sources of income

This means factoring in any pensions or annuities you may have, as well as other IRAs or assets in employer-sponsored retirement plans. Your Distribution and Retirement Planning Specialist can help with a comprehensive financial overview and help you make sure your assets can work well together.

Understand how to change your asset allocation

Now that you're no longer adding money to your retirement savings, but rather, ready to begin using those 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

You no doubt have ambitious plans for your retirement — traveling, pursuing hobbies and engaging in a number of leisure activities. To assess your retirement situation, it makes sense to 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 required minimum distributions (RMDs) are complex and the exact amount of RMDs varies with each individual. 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.

With the uncertain future of Social Security and corporate pensions, your IRAs are likely to play an even larger role in funding your retirement. That's a significant challenge, but one that you can handle with a little help.

To get started

Simply review your options as explained in this brochure. Carefully weigh the advantages and disadvantages of your options, and then make your final decision. If you need help or have questions, contact a BMO Distribution and Retirement Planning Specialist at 1-800-858-3829.

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