

Changing jobs? Make a smart decision about your retirement savings



You may have accepted a new position with a different employer, been laid off in the recent wave of downsizing, or simply decided to switch careers — whatever the reason, you're changing jobs. Along with this shift comes an important decision: what to do with the money you saved in your prior employer's retirement plan.

Essentially, you have three choices. You can:

1. **Leave your money where it is**
2. **Move it to a new employer's plan, or**
3. **Take your distribution in cash**

What should you do?

If you said "take a distribution," you're not alone. A survey by the human resources consulting firm AON Hewitt Associates found that 42 percent of employees took their 401(k) plan distribution in cash when they left their company, even though this money is meant for retirement.¹

Smart decision? That depends.

Take the money

When you change jobs, you can withdraw your retirement savings in a lump sum and do whatever you please — spend it or invest it. But, while cashing out can be tempting, it's rarely a good idea. That's because taking a distribution from your retirement plan can have serious consequences:

- You'll have to pay federal (and possibly state) income tax on the money. And, if the amount of your distribution is large enough, you could be pushed into a higher tax bracket for the year.
- If you're under age 59½ (age 55 in certain cases), you'll also owe the IRS a 10 percent early withdrawal penalty.

- Let's say you have \$1,000 in your account. After the 20 percent mandatory withholding for federal income tax and early withdrawal penalty, you'll receive a check for just \$700 — and you may still owe additional taxes if you're in a higher tax bracket and if you figure in possible state taxes.
- Most importantly, taking a lump sum distribution means you'll miss out on years of tax-deferred growth on your investments. As the chart on the following page shows, over the course of 20 or 30 years, even a modest amount like \$5,000 can add up when left to compound over time. So, before you make this potentially costly decision, consider your other options.

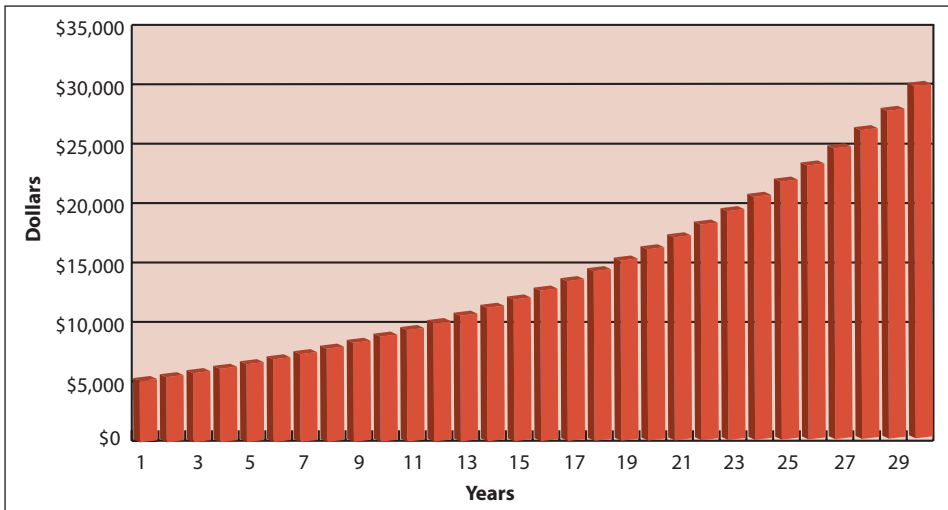
Leave your retirement assets in your former employer's plan

Many employers will allow you to leave your retirement savings in their plan when you change jobs. This option can be appealing, especially if you are satisfied with your investment choices or if there is a waiting period before you can participate in your new employer's plan.

But, keep in mind three important considerations:

- First, you will not be permitted to contribute to your account.
- Second, if you have less than \$1,000 in the plan, your former employer can close the account and return the money to you at any time, creating a taxable event and a 10 percent penalty if you're under age 59½.
- And finally, by leaving your money in an old plan and potentially starting to contribute to a new one, you'll have one more investment account to maintain.

(continued)



This chart is for illustrative purposes only and is not intended to represent any particular investment. It assumes a 6 percent average annual return, compounded monthly. Taxes due at distribution are not reflected on the chart. Past performance does not guarantee future results.

Roll them over into a new plan or IRA

Another option may be to have your retirement savings transferred directly to either a new employer’s plan, if your new employer accepts transfers, or to a Rollover Individual Retirement Account (IRA). Both choices allow you to keep your money growing tax deferred, avoid an early withdrawal penalty and consolidate your savings into one account.

The difference between the two?

Rolling the assets into a new employer’s plan offers two additional advantages not available through a Rollover IRA: the ability to borrow against your retirement plan holdings if your plan permits and greater flexibility with regard to contributions.

The advantage of a Rollover IRA? You are not limited to the investment choices offered by your employer’s plan, which means you have total control over how you invest your money.

Even a small amount makes a difference

Don’t underestimate the potential growth of your retirement savings. Even a small amount, such as the \$5,000 in our example, can make a difference in the amount you’ll have at retirement if left to grow tax deferred over time.

Need help?

How you handle your retirement funds when changing jobs can have a significant effect on your financial security in retirement. That’s why it’s critical to understand all your options before taking a distribution from your plan.

To learn more about your rollover options

We invite you to visit mybmoreirement.com or call the My BMO Retirement Line at **1-800-858-3829**.

¹Leakage of Participants’ DC Assets: How Loans, Withdrawals, and Cashouts Are Eroding Retirement Income, AON Hewitt, 2011.

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