

## Cashing Out? Better Think Twice!

**Amanda Lee**, 27, just left her job as art director in one company to head the art department of another company. Amanda is considering withdrawing half of the \$20,000 she has saved in her former employer's company sponsored retirement plan account and using it for a home renovation project. But if she knew about the short- and long-term financial consequences of this action, she might have second thoughts.

### Pay the piper

As a rule, if you are under 59½ years old when you change jobs, you must adhere to very specific rules to avoid losing a considerable amount of your nest egg to state and federal taxes and IRS penalties. In Amanda's case:

- A) The federal government would take 20% on the distribution amount (that's \$2,000), all of which Amanda's former employer is required to withhold before the check is written.
- B) At tax time, Amanda will have to pay a 10% early withdrawal penalty on her tax return (that's \$1,000)

The original \$10,000 Amanda hoped to receive is slashed to \$7,000. And that doesn't include the additional federal, state and local taxes she'll have to pay, which vary widely from state to state.

### A better option

Amanda should consult with a tax advisor or other financial planner *before* she makes any financial decisions regarding her retirement savings plan funds. He or she would inform Amanda of potential pitfalls and offer guidance on how to best manage her nest egg—and why she should try to keep it intact. An IRA Rollover is one option that would enable Amanda to continue the deferred-tax benefits on her savings.

This hypothetical profile is for illustrative purposes only and does not represent any specific investment products or advice. Please consult a tax advisor regarding your particular situation.

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