CAREER EXPERTS GROUP

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YOUR CAREER > YOUR FUTURE

ASK THE EXPERTS

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EMPLOYMENT BENEFITS

I have a 401(k) at my former employer. What can I do with it?

If you have 401(k)s accounts that are still with previous employers, you have 4 options on what you can do with those 401(k) accounts.

1. Leave the 401(k) with your former employer. Most companies, but not all, allow you to keep your retirement savings in their plans after you leave.
   a. Your money has the chance to continue to grow tax-deferred.
   b. Many offer institutionally priced (i.e., lower-cost) or unique investment options.
   c. Federal law provides broad protection against creditors.
   d. You won't be able to add any more money to the account or, in most cases, take a 401(k) loan.

2. Roll the money over into an IRA. A Rollover IRA is a retirement account that allows you to move money from your former employer-sponsored retirement plan into an IRA.
   a. Your money has the chance to continue to grow tax-deferred.
   b. You may be able to get a broader range of investment choices than through an employer's plan.
   c. Please note that federal law offers more protection for money in 401(k) plans than in IRAs. However, some states offer certain creditor protection for IRAs too.

3. Roll over your 401(k) into your new employer's plan. Not all employers will accept a rollover from a previous employer's plan, so check with your new employer before making any decisions.
   a. Your money has the chance to continue to grow tax-deferred.
   b. Having only one 401(k) can make it easier to manage your retirement savings.
   c. Many plans offer lower-cost or plan-specific investment options.
   d. Consider the range of investment options available in the new plan.

4. Cash out your 401(k). This option should be avoided unless the immediate need for cash is critical and you have no other options. The consequences vary depending on your age and tax situation. If you withdraw from your 401(k) before age 59½, the money is generally subject to both ordinary income taxes and a potential 10% early withdrawal penalty.

If you elect to move your 401(k) to an IRA or to a new employer, do a direct rollover as opposed to having a check made payable to you. This way, one financial institution sends a check directly to the other financial institution with instructions to roll the money into your IRA or 401(k).

If the check is made payable directly to you, the IRS requires your plan administrator to withhold 20% for taxes, and you only have 60 days from the time of a withdrawal to put the money back into a tax-advantaged account like a 401(k) or IRA. That means if you want the full value of your former account to stay in the tax-advantaged confines of a retirement account, you' will need to deposit the 20% that was withheld into your new account. If you don’t have the money to make up the 20%, you may owe a 10% penalty if you're under age 59½ (or under age 55 if separating from service in that year or later) because the IRS would consider the tax withholding an early withdrawal from your account.