THE BIG ROLLOVER

What should you do with that old 401(k)?

provided by Mark Thompson, Wealth Partners, Inc.

Options, options, options... There are many misconceptions about what must be done with a 401(k) when someone leaves a company. Some people think they have to cash out their 401(k) upon leaving a job. Others think they must “roll it over” into a new 401(k). Still others believe that they must leave the 401(k) where it is. None of these are true... and none are false. These aren’t “musts”, they are options. The big question is, which option is the right option for YOU?

Leaving it where it is... If you have enough money in your current 401(k) to meet the minimum requirement, you could leave your money where it is. Should you? Well, it depends. If you feel the plan has good investment choices and the annual fees are reasonable, leaving your money there to mature could be a goo options for you.

Direct rollover into a new 401(k)... If your new employer offers a 401(k), you could choose to “roll” your money into that plan, but then you will be limited to the new plan’s investment options. So should you? Once again, it depends. You’ll want to look into the structure of the new plan, the fees and the investment options.

Moving the money into an IRA rollover account... If managing where your account is held and how it is invested is important to you, this option gives you a great deal of flexibility. It also offers you more distribution options, once you are eligible. Additionally, you could open a brokerage account or purchase a CD, provided the account is titled as you IRA Rollover Account.

Cashing out your 401(k)... The temptation to get a lump sum ofmoney can be too great for some, especially if they have just lost their job or feel that they are in some sort of financial bind. They may choose to cash out their 401(k) upon leaving a job. But what are they giving up? Well, 10% for starters. If they are younger than 59 1/2 years old and cash out their 401(k), most of them will incur a 10% penalty. Additionally, they will owe taxes on th amount they cash out. But here’s what really hurts: they are giving up part of their retirement fund or (in many cases) starting over from zero.

Fighting temptation now could lead to big rewards later... For example, let’s say a 35-year-old leaves job an rolls over $15,000 from a 401(k) into an IR earning an average of 7% annually, letting the money mature over 30 years... by the time of retirement, that money could potentially grow to over $100,000.

Making a decision... If you’re unsure which choice is best for you, or if you’d like to learn more about your options, I would recommend speaking with a qualified financial advisor. Additionally, you may want to consider working with a tax professional if you own company stock in your previous 401(k). You’re likely to want some assistance in sorting through the IRS rules that may apply.

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