

Rollover Help for Your 401(k), 403(b), or Other Retirement Plan



If you are changing jobs or retiring you'll have to make a decision about what to do with your retirement money.

Basically, you have four choices.

Leave it in the current plan with the former employer. As long as you have \$5K in the plan you can probably leave it right in the plan. This can make sense if you really like the investment choices in the plan or if you need more time to make a decision. There are some drawbacks. You are limited to current investment options and these plans can always change. The employer can select a different provider with different investment choices and different rules. People have a tendency to forget these plans.

Rollover the balance into an Individual Retirement Account (IRA). Many companies call this a new Rollover IRA. You can establish this account with mutual fund companies and brokerage firms and have almost unlimited investment choices. Unlike 401(k) plans that offer a "menu" of funds you'll have more investment choices and control. In addition, you'll have access to investment advice that really can't be provided while your money is in a 401(k). The Rollover IRA account is also much simpler when you start to take distributions after age 59 1/2.

In addition, this option allows penalty free withdrawals for first time home purchase and college education and a stretch out for beneficiaries who may inherit this IRA reducing their taxes.

This direct rollover will give you more control over the investment choices and the ability to manage the money better.

Move your money into your new employers plan. This choice does give you fewer accounts to monitor and the possibility to borrow against the balance. Many new employers still **do not allow** this and you are limited to their menu of investment choices. You may be able to borrow from this plan however. Contact your new benefits office and discuss this possibility.

Cash out. This rarely makes sense. You'll pay taxes on this money, **incur a 10% penalty** and you'll lose the powerful benefit of deferring taxes on the growth of that money. Also be aware if you cash out or do what's called a lump-sum, your plan will **withhold 20% for the IRS**. Its basically a down payment of tax on what Uncle Sam assumes is a withdrawal, even if you're planning a rollover.