WINIECKI WEALTH MANAGEMENT

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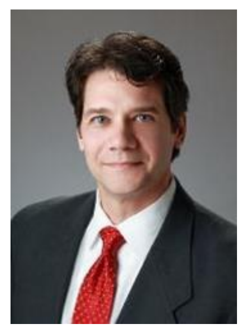
WWM Client Newsletter

Left Your Job?

Know Your 401(k) Options

People with funds in "old" 401(k) plans typically have four options for that money: leave it, move it to an IRA, move it to a new 401(k) or cash it out.

Here are some of the issues one should examine when making that decision.



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Disclaimer:
Kurt Winiecki no longer practices accounting or law. The general comments in this Newsletter are not and should not be construed as advice.

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When an employee separates from an employer due to switching jobs, being terminated or retiring, he or she can probably move that money without tax consequences. That said, this decision can get complicated, so understanding your options (using more than this Newsletter's information) is important.

Being Forced Out

Before we look at the options, note that many plans can "force" former employees out of the plan if the former employee has less than $5,000 in the plan. The plan typically allows the former employee to move the funds themselves, but can also send a check to the former employee. The former employee must then rollover that check into a tax-deferred account within 60 days of the withdrawal in order to avoid that withdrawal from being taxed as ordinary income and being assessed a 10% early withdrawal penalty (if the former employee is less than 59 ½ years old).

What is Needed to Assess Options

Turning to the four options, remember that costs and money management are important factors in assessing what to do. Determining costs of a 401(k) plan can be difficult despite rules that try to make fees more transparent. Call your 401(k) administrator (not your employer, but the Third Party Administrator) and request an itemized list of all the fees you pay and where you can find them in your fee disclosures and your quarterly statement. Similarly, assess all the fees you'll pay if you move it to a new 401(k) or an IRA. If you appreciate having someone manage your investments, include those types of fees in your analysis.

Now to the four options.

Leave it in the “old” 401(k) Plan

The easiest option may be to leave the funds in your former employer’s 401(k) plan because you do nothing. There are no tax consequences, no forms to fill out and no new service providers. You will continue to have access to your 401(k) online and to receive notifications and statements. If, however, you dislike the funds or the service providers or the fees or the lack of helpful information, moving your money may make sense.

Move it to IRA

Another non-taxable option, moving your funds to an IRA may allow you to invest in funds more to your liking. You can also hire an investment advisor to help you make decisions about your IRA investments, including which custodian to use. Remember, any withdrawals must be rolled into an IRA within 60 days or the withdrawal becomes taxable (and subject to the early withdrawal penalty).

Move it to new 401(k)

Moving your “old” 401(k) funds to your current employer’s 401(k) again has no taxable consequence. This may make sense if your current 401(k) plan has better fees, advice or funds, or if having one less 401(k) is simply easier to manage.

Cash it out

Unlike any of the above options, cashing out your 401(k) plan subjects you to income taxes (and possibly the 10% early withdrawal penalty) in the year of the withdrawal. This option may be helpful if you have a cash flow need and if the tax consequences are acceptable.

If you need help assessing your options, talk to an appropriate advisor, attorney or accountant.