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401k Rollover Checklist

One of the most important decisions to make when you are retiring or changing jobs is what action to take with your 401(k), 403(b), or any other employer-sponsored retirement plans. There are several options to consider including leaving your account in your former employer's plan, transferring it to your new employer's plan, taking a cash distribution, or rolling it into an IRA.

This checklist will walk you through your options and the process of rolling over your retirement account.

STEP 1

Decide which distribution option works best for you.

You typically have four choices when changing jobs or retiring from an employer.

- Leave your 401(k) where it is.
- Withdraw the money in a lump sum and pay all the taxes on it (If you withdraw money from your 401(k) before you're age 59½, the IRS usually assesses a 10% penalty when you file your tax return).
- Roll the 401(k) over into an IRA.
- Transfer the 401(k) to another employer's retirement plan.

Option 1:
Leave your 401(k) with your former employer.

Some Benefits:

- Your money can continue to grow, tax deferred.
- If you leave your job at age 55 or older, you can take penalty-free withdrawals.
- Federal law provides broad protection against creditors.
- Many plans offer lower-cost or unique investment options.

Possible Drawbacks:

- If you have less than $5,000 in the plan, the money may be automatically sent to you (or deposited in an IRA for you).
- You won't be able to add more money to the account or in most cases take a 401(k) loan.
- You may not be able to take a partial withdrawal ... it could be a choice between all or nothing.
- After you reach age 72, you'll have to take annual required minimum distributions (RMDs) from a traditional 401(k).
- If you hold appreciated company stock in your workplace savings account, consider the potential impact of net unrealized appreciation (NUA) before choosing between a rollover or an alternative. NUA is the difference in value between the cost basis of company stock and its market value at the time it is distributed in kind from a plan as part of a lump-sum distribution.

Option 2:
Move the money to your new employer's 401(k) plan

Moving money to your new employer's 401(k) may be an option, depending on whether your new employer has a 401(k) plan and the terms of the plan. Like your former employer's plan, many factors ultimately depend on the terms of your plan, but typically:

- You'll generally be able to add money to your new employer's plan, as long as you meet the plan's requirements.
- 401(k) fees and expenses often include administrative fees, investment-related expenses, and distribution fees. These fees and expenses may be higher than the fees and expenses of an IRA.
- Depending on the situation, you may be able to withdraw money from your plan without tax penalties at age 55, if you leave your employer in the calendar year you turn 55 or older.

Option 3: Cash Out

- Liquidating a retirement account altogether should be avoided unless the immediate need for cash is critical and you have no other options.

There are three consequences of cashing out a 401(k).

- **Taxes are withheld.** The IRS generally requires automatic withholding of 20% on a 401(k) early withdrawal for taxes. For instance, if you withdraw $10,000 from your 401(k) at age 40, you may get only about $8,000.
- **The IRS will penalize you.** If you withdraw money from your 401(k) before you're age 59½, the IRS usually assesses a 10% penalty when you file your tax return. That could mean giving the government $1,000 of that $10,000 withdrawal.

- **It may translate into less money for your future.** There can be especially harsh consequences if the market is down when you make the early withdrawal.

Option 4:
Roll over your 401(k) to a Traditional or Roth IRA

- Generally, you can take money from an IRA without tax penalties at age 59½.
- Traditional and Roth IRAs typically have a broader range of investment options than employer plans, but you may not have access to the same investments that are in your plan.
- Generally, you must take minimum distributions from a traditional IRA beginning at age 72.

STEP 2

Open a Rollover IRA Account.

You'll need a place to invest the funds in your retirement account(s). Many custodians offer these Rollover IRAs, including Fidelity, Charles Schwab, and Vanguard.

Execute the 401(k) Rollover the Right Way.

Whether you choose to roll over your account to an IRA or transfer to a new employer's plan, consider a direct rollover—when one financial institution sends a check directly to another. The check should be made out to the bank or brokerage firm with instructions to roll the money into your IRA or 401(k).

The other option is to request a check made payable to you, which is not a good option in this case. If the check is made payable directly to you, your employer is required by the IRS to withhold 20% for taxes. Plus, you only have 60 days from the time of a withdrawal to deposit the money into a tax-advantaged account like a 401(k) or IRA. That means if you want the full value of your former account to remain with the tax-advantaged confines of a retirement account, you'll need to make up the 20% difference that was withheld and deposit it into your new account.

Contact Your 401(k) Plan Administrator to Request A Direct Rollover.

You'll need a place to invest the funds in your retirement account(s). Many custodians offer these Rollover IRAs, including Fidelity, Charles Schwab, and Vanguard.

Invest the funds in your IRA or your new employer's 401(k) plan.

The next step in fine-tuning your retirement account is to choose the investments within the plan. Most plans offer at least two general investment strategies.

1 – Target-Date Retirement Fund: The first strategy, which is often the default in 401(k)s, is to invest within a target-date retirement fund. These funds calculate an estimated retirement year based on your age. They are typically diversified funds that offer exposure to U.S. and international equities and often include a mix of diversified corporate and government bonds. The younger you are, the riskier your target-date fund. But as you age and move closer to the target retirement year, the account automatically dials down the risk, positioning you for potential withdrawals in retirement.

If you have no interest in managing the underlying investments within your retirement account, target-date retirement funds can be a great option. Think of these funds as a "set it and forget it" option.

2 – A More Customized Approach: For those who favor a more hands-on approach, this option requires you to manually select individual funds that target specific asset classes. For example, you might see funds that offer exposure to large-company U.S. stocks, international stocks, bonds, and even publicly listed real estate. These funds can provide

a great option for building a customized portfolio within your retirement account. Compare your current investments with your new range of options according to your financial goals. You may want to consult your financial advisor to help you select and allocate your account.

STEP 6

Conduct an annual portfolio review.

If you decide to build a diversified allocation using asset-class funds, remember to set up automatic rebalancing at least annually. This will help ensure (due to movements in the market) that your overall allocation stays fairly consistent over time and that your retirement portfolio remains at the risk level that you intended.

By periodically applying these key concepts to your retirement account, you can rest assured that you're taking the appropriate steps to move closer to your retirement savings goals.

This is intended for informational purposes only and should not be construed as personalized investment advice.

Disclosure: A client or prospective financial advisory client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If the financial advisor recommends that a client roll over their retirement plan assets into an account to be managed by the advisor, such a recommendation creates a conflict of interest if the advisor will earn new (or increase its current) compensation as a result of the rollover. When acting in such capacity, a registered investment advisor serves as a fiduciary under the Employee Retirement Income Security Act ("ERISA"), or the Internal Revenue Code, or both. No client is under any obligation to rollover retirement plan assets to an account managed by a financial advisor.