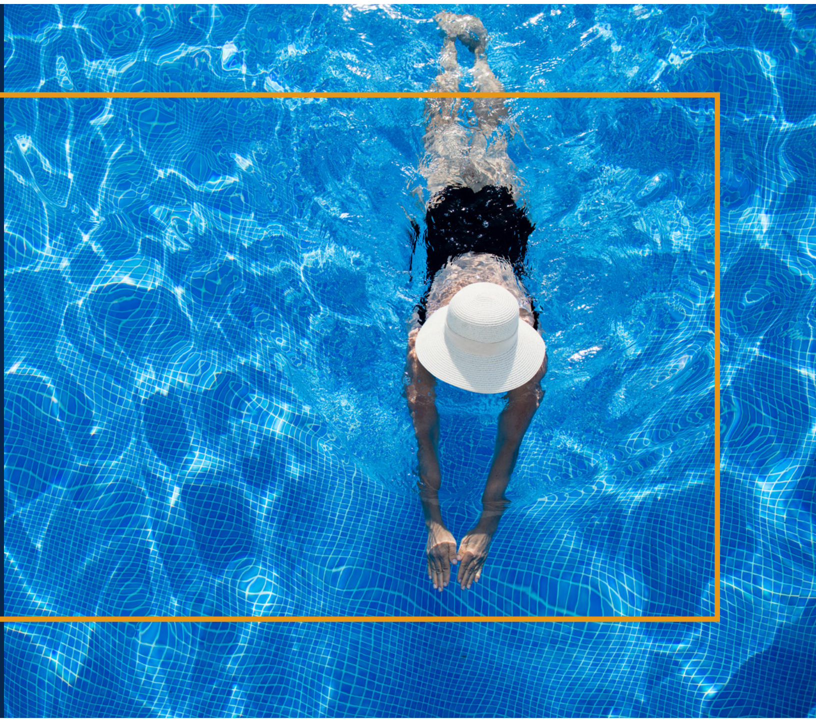
Should I Roll Over My Old 401(k)?

If you switched jobs, do you know your options for the 401(k) you left behind?



If you've switched jobs recently, you're in good company. Approximately 14.8 million defined-contribution participants were changing jobs each year prior to the COVID-19 pandemic, according to Retirement Clearinghouse and the Employee Benefit Research Institute.[1] During the pandemic, job switching accelerated; from January to March 2022, some 4 million workers—nearly 2.5% of all workers—changed employers.[2] This suggests a lot of people have 401(k)s with a previous employer. If you recently switched jobs, a big question becomes: What to do with your old 401(k)?

Option 1: Do Nothing/Leave Your Money in Your Previous Employer's 401(k)

When you separate from service with an employer, most 401(k) plans will allow you to leave your money in the plan as long as your account balance meets a minimum requirement (e.g., $5,000 or something along those lines). Leaving your money in your previous employer's 401(k) is worth considering if you like the investment options and if the fees are reasonable. However, if your 401(k) isn't fully vested when you leave your employer, you're likely to forfeit all or some of the unvested funds. If there's a chance you could be rehired by the same employer within five years, the company may allow your vesting schedule to pick up where you left off.

> A 401(k) is most people's largest asset besides their home

Option 2: Roll Over Your Old 401(k) to Your New Employer's 401(k)

You may be able to roll over the 401(k) from your previous employer into your new employer's 401(k) plan. You'll need to check with your plan administrator at your new employer to see if this is an option. Some plans are lenient about accepting rollovers, while others are more strict. This option is worth considering if you like the investment options at your new employer and if the fees are reasonable. This option allows you to simplify your financial life by consolidating your accounts.

Option 3: Roll Over Your Old 401(k) into an IRA

There are a number of reasons why you may choose to roll over your 401(k) into an IRA. For most people, their 401(k) is the largest asset they own besides their home,

[1] Source: Spencer Williams, Retirement Clearinghouse, 3/15/22.
[2] Source: Pew Research Center, 7/28/22.

especially if they've been at the same employer for a while. With that in mind, it makes sense that many people would choose to roll over their 401(k) into an IRA so they can benefit from financial advice and ongoing monitoring of their account. While a typical 401(k) plan has 10-15 investment options to choose from, with an IRA you can choose among thousands of mutual funds and ETFs. Yes, all those choices can feel overwhelming, but that's another reason why some people opt for a financial professional to help them select investments.

Option 4: Cash Out Your Old 401(k) and Pay the Penalties

Let's be clear: Cashing out your old 401(k) is a terrible idea. But that doesn't stop a lot of people from doing it. According to a recent University of British Columbia analysis, 41.4% of people cash out their 401(k) when they leave an employer.[3] If you're younger than 59½ and you take this route, the IRS will assess a 10% premature withdrawal penalty, plus the amount of the withdrawal will be added to your taxable income for the year.

Example: *You're 40 years old and have a 401(k) worth $30,000 at a previous employer. If you have the account paid out to you, you'll be assessed a $3,000 penalty, plus the entire $30,000 will be added to your taxable income for the year. This could be especially costly if it bumps you into a higher tax bracket. Finally, your plan administrator is required to withhold 20% of your payment for taxes, so the amount paid out to you will be substantially less than $30,000.*

In addition to the significant tax penalties, cashing out your 401(k) can result in a serious setback to your retirement savings. Diverting that money away from your retirement savings means that you'll miss out on the power of compounding. You may need to save a lot more in the future to make up for the compound earnings you might have received if you'd stayed invested.

401(k) Rollover Considerations

- Are you comfortable managing your investments, or would you benefit from professional advice?
- Does your 401(k) have adequate investment options to build a diversified portfolio that's personalized for your needs and preferences?
- Do you prefer to minimize your paperwork and simplify your financial life by having all your investment accounts at one provider?
- Are you willing to pay attention to notices from your 401(k) plan administrator about changes to the plan and its investment options?
- Do you have a risk-management process to ensure you're taking the appropriate amount of risk based on your age and investment goals?
- Are you adjusting your investments as you get older or as your life circumstances change?
- Do you know how much you're paying in fees and fund expenses to stay in the 401(k)?

If you're in the distribution phase of retirement:

- Do you know which investments you should take distributions from to balance future growth potential with current income needs?
- Do you know how much to withdraw each year to help ensure your portfolio lasts the rest of your life?

[3] "Cashing Out Retirement Savings at Job Separation," Sauder School of Business, University of British Columbia, 11/7/22.

If you need help deciding what to do with your old 401(k), talk to your financial professional or tax consultant.

Important Risks: Investing involves risk, including the possible loss of principal. • Diversification does not ensure a profit or protect against a loss in a declining market.