A Guide For What To Do With Your Retirement Savings

Whether starting a new job, starting over, or entering retirement, leaving your employer means that you'll need to make a decision about what to do with the money in your 401(k)/403(b)/457(b) plan. At the same time, leaving your employer also means you probably have a lot to think about and deciding what to do with your accumulated retirement savings might not be foremost on your mind. However, it is a decision that you can't afford to put off. This guide can assist you in making a confident choice about what to do with your retirement nest egg.

Evaluate Your Distribution Options

You have many options to choose from. We at MPS LORIA Financial Planners, LLC want you to fully understand all of your options before making a decision as big as this. This section summarizes each option and then provides a look at the advantages and disadvantages of each option.

1. Leave the assets in your former employer's plan

You can usually keep some or all your savings in your former employer's plan. Check with the employer's benefits office to see what the company's policy is.

Advantages

- You don't have to take any action.
- Your assets remain invested tax-deferred.
- Avoids current taxes and, if applicable, a 10% IRS penalty for early withdrawals.
- You may continue to be eligible for loan provisions from your previous employer. Most loan options stop at termination
- You may be able to take penalty-free withdrawals after age 55.

Disadvantages

- May not be an option permitted by your former employer's plan.
- You cannot make additional contributions if you stay in your old plan & there may be different rules for inactive employees.
- You have limited access to, and control of, your money.
- Your old plan may not have the investment options you desire.
- You must notify your former employer of address changes and other relevant matters.

2. Transfer the assets to your new employer's plan

A new employer may permit you to transfer your retirement money to their plan. Check with your new firm's benefits or human resources office.

Advantages

- Your assets remain invested tax-deferred.
- Avoids current taxes and, if applicable, a 10% IRS penalty for early withdrawals.
- You can make additional contributions under your new employer's plan and receive employer matching contributions if eligible.
- You might be eligible for loans from your new employer.
- You consolidate your old retirement savings with your new ones.

Disadvantages

- May not be permitted by your new employer.
- Former employer's contract may assess withdrawal charges on distributions.
- You are limited to the investment options offered by your new employer.
- You may have to wait until you're eligible to participate in the plan (one year is common) before you can roll over your money.

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3. Rollover the assets into an IRA

A rollover IRA is a type of IRA that is established to receive distributions from a qualified retirement plan. Once the account is opened and your assets are transferred into it, you can invest your money in a variety of investment options at your discretion and according to your financial goals and tolerance for risk. Discuss the different tax consequences associated with Traditional and Roth IRAs with a qualified tax expert.

Advantages

- You can make additional contributions.
- You decide where to invest your money as permitted by the rollover IRA.
- You can avoid IRS early withdrawal penalties if you're under age 59 ½.
- Your retirement savings are consolidated into a "nest egg" that you never have to move again – but you can move the money into a future employer's plan if you wish.
- Although certain pre-age 59 ½ distributions may be subject to a 10% IRS penalty, you may be able to access the money in your rollover IRA without penalty by setting up a periodic payment program.
- You may be able to take penalty-free withdrawals for a first-time home purchase or college education expenses prior to age 59 ½.

Disadvantages

- You may not be permitted to roll over your entire distribution (your employer should give you a statement that indicates whether any part of your distribution cannot be rolled).
- Some IRAs charge upfront sales charges that may reduce the balance of your account.
- Care must be taken to ensure the assets are transferred properly and expediently; working with your Financial Advisor may limit these concerns.
- You cannot take a loan from your IRA.
- No employer matching.
- Fees and expenses could potentially be higher than in the plan.
- New rules limit how often you can do this.

4. Take a cash distribution

You can remove your money from your retirement plan and take it in cash. Generally speaking, when you take a cash distribution, you'll need to pay taxes and possibly some additional penalties.

Advantages

- Immediate resources if you have no other source of income (once the distribution is processed and applicable taxes and possible penalties are withheld).
- You can still roll over all or a portion of your money without any tax consequences if you do so within 60 days of taking the distribution.
- Favorable tax treatment may be available to individuals born before 1936 who take lump-sum distributions.
- You may invest in anything, although generally, the money will no longer be invested tax-deferred.

Disadvantages

- Your cash distribution will be subject to a 20% federal income tax withholding and possibly additional federal, state and local income taxes come tax time.
- If you're under age 59 ½, you may owe an additional 10% of your distribution as an IRS early withdrawal penalty (some exceptions apply).
- If you do not roll over assets in your retirement plan within 60 days, your retirement savings are no longer tax-deferred.
- By taking a cash distribution and not investing the proceeds you are, in effect, not allowing that money to help meet future retirement needs.
- After all of the tax consequences, you'll be left with much less to live on or to invest for your retirement.

5. Begin receiving distributions from your retirement plan

Advantages

- Monthly payments from your retirement plan can supplement your current income and/or Social Security as these may not provide the income you desire.

Disadvantages

- If you are younger than 59 ½ years old, you may be subject to a 10% IRS tax penalty for early withdrawal. (Note: May be able to use Rule 72(t)).
- There is the risk that you could outlive the assets in your plan.

Some Other Factors That You Should Consider

Investment Options
While IRAs may offer a broader range of investment options than your company retirement plan, this advantage should be balanced against the often lower-cost investments available through an employer plan. Other considerations may be the availability of retirement income products – in or out of the plan – and whether the plan offers a self-directed brokerage account.

Fees and Expenses
Consider the full range of expenses: plan administrative fees and IRA account fees, investment-related expenses (such as mutual fund expenses) and fees for services (e.g., access to services and advice). Consideration should also be given to whether the employer pays for some or all of the plan's administrative expenses.

Services
Consider the services available under the plan – investment advice, educational materials, workshops, etc. – and evaluate them against the services offered under the IRA – brokerage services, person-to-person advice, distribution planning, etc.

Penalty-Free Withdrawals
Note that you may be able to take a penalty-free withdrawal under your retirement plan at an earlier age than under the IRA (age 55 versus age 59 ½) or may be able to take a plan loan, which is not available in the IRA.

Required Minimum Distributions
The plan may allow you to take a required minimum distribution later than age 70 ½ if you are still working. Note that this is not allowed in a non-Roth IRA.

Protection from Creditors and Legal Judgments
Plan assets have a greater protection from creditors under federal law than do IRAs. However, in some states, IRAs receive similar protection.

Employer Stock
If your account includes employer stock that has appreciated in value, then the negative tax consequences of rolling over that stock to an IRA should be considered. On the other hand, the risks of holding too much employer stock in a retirement account should also be taken into account.

Guidance from the Financial Industry Regulatory Authority (FINRA)
You may also wish to review rollover guidance provided by FINRA. If you are interested, your Financial Advisor can provide you with a copy of "The IRA Rollover: 10 Tips to Making a Sound Decision" or you can access it yourself via the following address:
http://www.finra.org/investors/protectyourself/investoralerts/retirementaccounts/p436001

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