

Changing Jobs And Your Retirement Savings Plan

When changing jobs, many people forget about **retirement plan savings from a previous employer**. Sometimes employers automatically cash out those funds, costing you in taxes in penalties. Don't let this happen to you. **Consider your options** and choose the one that makes sense to you.

Option 1: Leave it alone

You may have the option of leaving the retirement funds in your former employer's plan. If you're satisfied with the plan, this is an option worth considering. But be aware that plan service providers and terms can change, so continue to monitor the account closely.

If the balance is less than \$1,000, your employer may assume that you want to cash out and simply send you a distribution check. To avoid this, you must decide what to do with the retirement funds within the required amount of time.

Due to new legislation, if the account balance is between \$1,000 and \$5,000 and the employee hasn't made a decision about what to do with the retirement funds within the required amount of time, the employer must automatically transfer the retirement funds to an IRA account.

Option 2: Move it to your new employer's plan

If you're happy with your new employer's retirement plan, you may have the option of moving retirement funds from previous employers' plans into a new account there. That keeps retirement funds in one place, making it easier to track performance and get optimal asset allocation.

Keep in mind that you may be limited to the investment options available in your current employer's retirement plan. Contact your new employer to determine how to move money to your new employer's plan.

Option 3: Move it to a Rollover IRA

One of the main advantages to rolling retirement funds into a Rollover IRA is the investment flexibility. Within a Rollover IRA, you have access to thousands of types of investment options.

Withdrawal provisions are more liberal with an IRA. However, withdrawals are subject to taxes and generally should be tapped only as a last resort.

Many employees are able to access retirement plan funds through a loan. However, most employers require payback within 60 days of leaving the job to avoid tax consequences and penalties. If you're laid off or fired, a retirement plan loan could put these retirement funds at risk.

New Tax Laws make Rollovers Easier. Recent tax law changes make it much easier to move assets between retirement plans. You may be able to consolidate money from: 401(K) plans, 403(b) plans, Governmental 457 plans and other rollover IRAs.

Option 4: Cash it out

The riskiest route, cashing out, is one of the most common for small account holders—and also the most unwise. It may be tempting if you need to pay for a car or vacation or to whittle down credit card debt, but many individuals are unaware that they face a **hefty tax bill and** a 10 percent **early-withdrawal penalty** when they take distributions from a retirement plan before age 59 1/2.