What are the pros and cons of your 401(k) options?

Your 401(k), 403(b), 457 plan, Tax-Sheltered Annuity (TSA) or pension plan represents a critical piece of your financial future. And whether you're changing jobs, quitting, being laid off, retiring or ready to receive a lump sum from your former employer, when and how to take this distribution is a critical decision and one that can't be changed once it has been made.

It's an irrevocable choice with your life savings at stake, so it's important that you don't make the choice by the seat of your pants, on your own, or limit your advice to a friend or an employee in the HR department.

Typically, when you're in transition, you have four basic options to consider when deciding what to do with your old retirement account savings.

OPTION #1 Take Your Savings in Cash (usually a poor option)

PROS

- Immediate access to a portion of your money

CONS

- Your savings no longer grow tax-deferred
- A 10% early withdrawal penalty generally applies to people under age 59.5
- You will be subject to all applicable federal, state and local taxes
- Without compound growth, you may compromise your wealth in retirement
- The distribution may push you into a higher tax bracket

OPTION #2 Roll over Your Savings into an IRA* (usually the best option)

PROS

- Your money continues to grow tax-deferred
- You avoid the 10% early withdrawal penalty if under age 59.5
- Additional investment options may be available
- You control how to access your savings
- You have the potential to convert assets to a Roth IRA in the future
- You have the potential to move IRA rollover assets into a future employer's plan

CONS

- Mandatory distributions are required at age 72
- Additional paperwork is required to create and transfer your money

*Note: The choice is obvious, yet the procedure—usually called an IRA rollover, 401(k) rollover, direct transfer, direct rollover, or trustee-to-trustee transfer—is intricate. We perform these rollovers regularly.

OPTION #3 Keep Your Money in Your Previous Employer's Retirement Plan, if Allowed

PROS

- Your money continues to grow tax-deferred
- Avoid the 10% early withdrawal penalty if under age 59.5
- Little or no additional paperwork
- Asset allocation strategy remains intact
- May allow you to withdraw money without penalty under certain circumstances

CONS

- Lack of control
- Plan may place limitations on inactive or retired participant accounts
- Investment options limited to those offered in plan
- Withdrawals and distributions are subject to plan provisions
- Company may be acquired to or decide to change its plan in the future

OPTION #4 Move Your Money into Your New Employer's Retirement Plan, if Allowed

PROS

- Your money continues to grow tax-deferred
- Avoid the 10% early withdrawal penalty if under age 59.5
- New plan may allow loans
- Investment options and features may improve compared to old plan
- Retirement assets are consolidated with one provider

CONS

- New plan may have higher fees than the old plan
- Investment options are limited to those offered in the plan
- Withdrawals and distributions are subject to plan provisions

The Bottom Line

When your hard-earned dollars are at stake, you need objective advice from someone with rollover experience and that's where our IRA Rollover Helpline® comes in. We will personally help you evaluate your options so you're educated and informed, and your choice is clear and correct. And if you choose to roll over your money to an IRA with BLRS, as one of our valued private clients:

- We'll contact your employer and obtain the required paperwork
- We'll help you complete it correctly
- We'll notarize it, if necessary
- We'll ship the paperwork via overnight courier and track the progress
- We'll keep you informed throughout the process
- We'll help you avoid IRS penalties and unnecessary taxes

Give us a call to learn more.

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