2023

401(K) ROLLOVERS

Have a 401(k) balance remaining in a former employer's plan? Not sure what to do with it?

You have a few options:

1. Cash out the 401(k) balance.
2. Leave the balance in the old employer's plan.
3. Roll the balance into an IRA.
4. Roll it into you new employer's 401(k) plan.

Option #1: Cash it out.

If you are no longer employed with the company, you have the option to take your 401(k) balance as a lump sum cash distribution. However, there can be consequences to this option.

If you are under age 59 1/2, you will face a 10% early distribution penalty, unless you meet one of the following exceptions:

- Death.
- Disability.
- Payments under a Qualified Domestic Relations Order.
- Series of substantially equal payments if the employee terminates service during or after the year the employee turns age 55.
- IRS Levy.

https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions

Unless you meet one of those criteria, you'll pay a 10% penalty on your 401(k) plan distribution.

You will also face income taxes on the entire distribution, even if you DO meet one of the previous exemptions. Below are 2023's income tax rates:

SINGLE FILERS

Taxable Income	Tax Rate
$0 - $11,000	10%
$11,001 - $44,725	12%
$44,726 - $95,375	22%
$95,376 - $182,100	24%
$182,101 - $231,250	32%
$231,251 - $578,125	35%
$578,126 and up	37%

MARRIED FILING JOINTLY OR QUALIFYING WIDOW

Taxable Income	Tax Rate
$0 - $22,000	10%
$22,001 - $89,450	12%
$89,451 - $190,750	22%
$190,751 - $364,200	24%
$364,201 - $462,500	32%
$462,501 - $693,750	35%
$693,751 and up	37%

Again, keep in mind that you could pay the taxes on the distribution PLUS the 10% early distribution penalty.

https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023

PROS:

- You get a lump sum of cash to use however you wish.

CONS:

- You pay taxes on the full distribution.
- You may pay a 10% early distribution penalty.
- You lose future tax-deferred growth on the assets.

Option #2: Leave it with the old employer's plan.

There's nothing saying you have to do anything with the 401(k) balance. You can leave it in your former employer's plan, assuming that is allowed under the plan's rules. Some plans have rules that force a distribution for balances under a certain amount.

PROS:

- You may be happy with the investment options and performance within the current plan.

CONS:

- It may be difficult or inconvenient to manage multiple retirement accounts.
- You may only have access to a limited menu of investment options.
- You are no longer eligible to contribute to the plan or receive company matches because you are no longer in service with the employer.

In some instances, keeping the balance in the former employer's plan could make sense. However, you are limited to the plan's investment options and you may become burdened by managing multiple retirement accounts.

Option #3: Roll it over.

The third option is to roll the 401(k) balance directly into an IRA. With this process, the funds are distributed directly to the IRA administrator, so it is not a taxable event. You don't face taxes or an early distribution penalty. You choose new investments in the IRA and the funds continue to grow on a tax-deferred basis.

PROS:

- No taxes on distribution from 401(k).
- No 10% early distribution penalty.
- Wide range of investment options in IRA to meet your objectives and risk tolerance.
- Continued tax-deferred growth in IRA.

CONS:

- Must wait until age 59 1/2 to use funds without facing the 10% distribution penalty.

Ready to take action with your old 401(k) balance? Our team is here to help. Let's connect today and review your options. We look forward to speaking with you soon.

Option #4: Roll it into you new employer's 401(k) plan.

You may have the option to transfer the money into your new employer's 401(k) plan. This option allows for easier tracking and the continuance of tax-deferred interest potential. However, your 401(k) investment options may be limited when compared to an IRA and you may be subject to your new employer rules, management fees and transaction limits.

Let's talk about it. Reach out today to start the conversation.

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