2025 CHEAT SHEET

401(k) Rollovers

Do you carry a balance in a former employer's 401(k) plan that you're not sure what to do with? You have a few options.

1. Take a cash distribution directly to yourself.
2. Leave the balance in the former employer's plan.
3. Roll over the balance to an IRA in your name.
4. Roll over the balance to a new employer's 401(k) plan.

Option #1
Take a cash distribution

If you are no longer employed with the company that sponsors the 401(k), you have the option to withdraw funds as a cash distribution. However, there can be consequences to this option.

First, any funds withdrawn from a pre-tax account are added to your taxable income for the year, which means you will pay ordinary income taxes on the assets. And, if the amount of the distribution puts you in a higher tax bracket, you may be subject to higher taxes on all of your earnings.

Also, if you have not yet reached age 59 ½, you will likely face a 10% early distribution penalty, unless you qualify for one of the following exemptions.[1]

- Death
- Disability
- Payments under a qualified domestic relations order (QDRO)
- A series of substantially equal payments if you terminate service during or after the year in which you reach age 55
- IRS levy

Even if you qualify for one of the exemptions, you will still need to pay tax on any amount withdrawn, based on your income tax bracket.

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

	2025 Taxable Income by Filer Type[2]		
Tax Rate	Single Filers	Head of Household	Married Filing Jointly or Qualifying Widow
10%	Up to $11,925	Up to $16,550	Up to $23,850
12%	$11,926 to $48,475	$17,001 to $64,850	$23,851 to $96,950
22%	$48,475 to $103,350	$64,851 to $103,350	$96,951 to $206,700
24%	$$103,351 to $197,300	$103,351 to $197,300	$206,701 to $394,600
32%	$197,301 to $250,525	$197,301 to $250,500	$394,601 to $501,050
35%	$250,526 to $626,350	$250,501 to $626,350	$501,051 to $751,600
37%	Greater than $626,350	Greater than $626,350	Greater than $751,600

PROS:

- You receive a lump sum of cash to spend as you wish.

CONS:

- You pay income tax on the full amount of the distribution.
- You may owe a 10% early withdrawal penalty, in addition to taxes.
- You miss out on the growth potential of tax-deferred assets.

Option #2

Leave your assets in the previous employer's plan.

Assuming it's permitted by plan rules, you can leave your 401(k) balance right where it is.

PROS:

- If you are happy with the investment options and performance of your current plan, you do not need to take action.

CONS:

- It may be difficult or inconvenient to manage multiple retirement accounts.
- Your former plan may limit the investment options available to you.
- Some plans charge administration fees for non-employees, which could significantly erode your retirement savings over time.
- Once you are no longer an employee, you cannot make contributions or receive company matching contributions.

2 https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025

Option #3

Roll over to an IRA.

The third option is to initiate a direct rollover of your 401(k) assets to an IRA. By doing so, you preserve the tax-deferred status of your account and allow your retirement savings to continue growing. The key is that you do not want to take possession of the assets. Instead, request that a distribution be made directly to your IRA administrator.

PROS:

- You will not owe taxes on your distribution, and your tax bracket is not impacted.
- You will not be subject to a 10% early withdrawal penalty.
- The tax-deferred status of your account is preserved.
- You may have a wider range of investment options to choose from in an IRA than in your previous employer's 401(k).

CONS:

- You must wait until age 59 ½ to access funds without facing the 10% early withdrawal penalty.

Option #4

Roll over to your new employer's 401(k) plan.

Your new plan may offer the option to roll over funds from your previous employer's plan. By doing so, you can preserve the tax-deferred status of your retirement savings.

PROS:

- It can be easier to track and manage assets held within a single account.
- You will not owe taxes on your distribution, and your tax bracket is not impacted.
- You will not be subject to a 10% penalty unless you make an early withdrawal.
- The tax-deferred status of your account is preserved.

CONS:

- You may have limited investment options within the employer-sponsored plan.
- You may be subject to new employer rules, management fees and transaction limits.

Interested in learning more about your 401(k) distribution options?

Schedule a consultation with your financial professional.

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