Peterson Row. ADVISORY

A Guide to 401(k) Rollovers

When you leave a job or retire, you generally have four options for your retirement plan balance. Each option has advantages, disadvantages, and potential tax consequences.

Leave the money in your former employer's plan

Pros:

- Keeps tax-deferred growth
- May have lower fees
- Some plans have loan provisions
- Creditor protection under federal law
- Access to plan tools/education

Cons:

- Limited investment options
- No new contributions
- Subject to plan rules and changes
- May not have access to personalized advice
- QCDs (Qualified Charitable Distributions) not available for employer plans

Rollover to an IRA

Pros:

- Keeps tax-deferred growth
- Broad investment choices
- Consolidation of accounts
- More control and flexibility
- Potential for professional advice
- Assistance with RMDs, including QCDs (Charitable Distributions)

Cons:

- Fees may be higher than employer plans
- No loan features
- Creditor protections vary by state

Rollover to your new employer plan

Pros:

- Keeps tax-deferred growth
- Allows continued contributions
- Can consolidate accounts
- Often preserves creditor protection
- Some plans have loan provisions
- May delay RMDs if still employed
- May have lower fees

Cons:

- Limited investment choices
- Subject to plan rules and changes
- May not have access to personalized advice

Cash Out (take Lump-Sum Distribution)

Pros:

- Immediate access to funds
- Possible tax advantage for appreciated company stock (NUA strategy)

Cons:

- Fully taxable at ordinary income rates
- May trigger 10% penalty if under 59½
- Could push you into a higher tax bracket
- Forfeits future tax-deferred growth
- No creditor protection.