What to Do With Your Retirement Account If You Leave Your Job

If you've lost your job, or are changing jobs, you may be wondering what to do with your retirement account. To help you make the best decision for you, we have provided a summary of advantages and disadvantages for each option to help you think about questions to ask before deciding what you should do.

There are generally four options available to retirement plan participants when they terminate employment. The first three assure that your money remains tax-deferred. The fourth option will subject your money to current taxes and a potential tax penalty.

OPTION 1: KEEP YOUR MONEY IN YOUR FORMER EMPLOYER'S PLAN

Generally, if your vested retirement account balance is $5,000 or more, you may leave your money in your former employer's plan until you reach your retirement age.

ADVANTAGES:

- You don't have to do anything.
- Your former employer's plan may offer investment choices that are priced better than would otherwise be available to you outside of the plan.
- Your former employer may continue to subsidize your plan's account management fees which could make your plan less expensive than a Rollover IRA or a new employer's plan.
- New government fee disclosure rules now require Plan Sponsors to disclose all fees that impact your account.
- Generally speaking, plan assets have unlimited protection from creditors under Federal law, while IRA assets are protected in bankruptcy proceedings only. State laws vary in the protection of IRA assets from creditors in non-bankruptcy situations.
- If you're at least 55 years old when you leave your job, you may be eligible to take penalty-free withdrawals. Income taxes apply.

DISADVANTAGES:

- You don't have control over the service provider or the investments made available to you. Your former employer will still make those decisions.
- If your former employer ever terminates their plan, access to your account could be limited while waiting for regulatory approvals.
- Your former employer may assess fees to your account after you leave that you may not have paid when you worked for the company.
- You may not add new contributions to your former employer's plan since you're no longer employed by that company.

**This option is not applicable in the case of a plan termination.*

OPTION 2: ROLLOVER YOUR MONEY INTO AN IRA

If you would like to preserve the tax-qualified status of your retirement account, you may choose to

rollover your retirement plan account to an Individual

Retirement Account (IRA).To be sure you open the proper type of IRA, make sure you open a "Rollover IRA." While Rollover IRAs are offered through banks, insurance c

ADVANTAGES:

- This is your account and you get to make all of the decisions about your money. You decide which financial institution to work with.
- A Rollover IRA is a great account to consolidate your retirement accounts from your prior employers.
- A Rollover IRA allows you to have your retirement and non-retirement accounts with a single provider and to get individualized advice regarding all your accounts.
- It's generally easier and less expensive to set up regular monthly withdrawals from an IRA account than it is from an employer-sponsored retirement plan.
- IRAs are easily transferable between financial institutions so if you don't like the one you're with, changing to another provider is generally very easy.
- IRAs offer penalty-free withdrawals for education and first-time home purchases. Income taxes apply.

DISADVANTAGES:

- You may need more help selecting your investments since you have more options.
- Depending on the amount of money in your IRA account, you may pay more for investments than you would otherwise pay through your former employer's retirement plan.
- You can't borrow from an IRA—you can only access the money in an IRA by taking distributions, which may be subject to income tax and penalties.
- Generally, IRAs may not offer the same level of creditor protection as employer-sponsored retirement plans.
- Unlike qualified retirement plan accounts, IRAs are not subject to fee disclosure rules. Be sure that you understand any fees that would be assessed to your IRA.
- If your plan offers individual investment advice, the cost for that advice may be less than the advice you could receive in a IRA.
- If you rollover your IRA to a brokerage account, trading and commission costs may apply.

OPTION 3: ROLLOVER YOUR MONEY TO YOUR NEW EMPLOYER'S PLAN

Another way to preserve the tax-qualified status of your retirement account is to roll the balance to your new employer's retirement plan. While most employer plans allow new employees to roll their accounts in, it's important that you ask first to be sure.

ADVANTAGES:

- You will be able to add to your retirement account when you become eligible to participate in your new employer's plan.
- The new plan could potentially offer more attractive and less expensive investment options than your previous employer's plan or a Rollover IRA.

- Many employer-sponsored plans have loan provisions. If you roll over your retirement funds to a new employer's plan that permits loans, you may be able to borrow up to 50% of the amount you roll over if you need the money.
- Employer-sponsored plans generally offer better creditor protection than IRAs. Keeping your retirement money in another employer-sponsored plan helps you maintain the same level of creditor protection.
- You may want to ask about fees assessed to participants in your new employer's plan and compare them to your former employer's plan and IRA alternatives before making a final decision.

DISADVANTAGES:

- The new plan might offer less investment options than your former plan. It's important to research your new investment options before making this decision.
- You don't have control over the service provider or the investments made available to you.
- If your new employer ever terminates their plan, access to your account could be limited while waiting for regulatory approvals.

OPTION 4: WITHDRAW YOUR MONEY FROM YOUR ACCOUNT.

It's your money and you get to choose what's right for you. One decision you could make is to simply withdraw the money and use for daily expenses that you have no

ADVANTAGE:

- You can use the money to pay off existing debt, bills or other expenses.

DISADVANTAGES:

- You'll owe Federal (and potentially State) income taxes on the money that you withdraw. The government requires your plan's service provider to withhold 20% for Federal taxes. This may not be enough since a large withdrawal may actually push you into a higher tax bracket in the year you take the distribution.
- In addition to Federal and potential State income taxes, if you're under age 59 1/2, you would also be subject to a 10% early distribution tax penalty unless some other exception applies.