What Should I Do With my Retirement Plan?

The Wall Street Journal featured a special *Encore* publication in its Monday, April 20, issue, titled, "What to Do With a 401(k) When Leaving a Job." This piece draws on that. You can consider "401(k)" interchangeable with "retirement plan," which would include 403(b)s, etc.

Broadly speaking, here are your options:

- Leave it in the 401(k)
- Roll it over to a new 401(k)
- Roll it over to an IRA
- Take a distribution or cash it out

Leave it in the 401(k)

This is the default option and maybe the best one for you depending on your circumstances. <u>Your 401(k) may be your least costly investment option, but you have to be content with the limited number of investment choices and needing to navigate the process on your own.</u> You will likely need to be your own financial advisor on this part of your financial life.

<u>If you anticipate periodically drawing from the account, however, you will likely be frustrated with the distribution options from the retirement plan.</u> Again, from the WSJ article, "it becomes cumbersome; you have to fill out a form; it might even have to be notarized."

Depending on the size of your account, you may not have this option. Often retirement plans force out participants with balances less than $1,000 by sending a check for the balance, while balances of $1,000 - $5,000 may be automatically rolled over to a default IRA provider. If you fall into either of these categories you should receive some sort of advance notice of what's going on, although that may have been buried in some of information you chose to skim over or skip altogether.

> *In a study from Vanguard featured in the article, 65% of participants in retirement plans at Vanguard chose to remain in the 401(k).*

Rollover to a new 401(k)

This carries the same positives and negatives as the *Leave-it* option, with the <u>added benefit of consolidating accounts</u>. If you have another job, which employer offers a 401(k), beginning to contribute to it will open another account and one more thing to keep track of.

Rollover to a new IRA

This is the option that financial advisors salivate over, and whether they admit it<u>**, this poses a conflict of interest as most won't get compensated for recommending you choose either of the two above options**</u>. While this option will give you the most investment flexibility—from the WSJ article, participants "go from maybe 10, 20 or 30 options…to thousands of different options out on the open market"—it is likely to mean higher fees on your part. As the WSJ article goes on, "while not every

401(k) features lower costs than an IRA, if your plan sponsor has negotiated a good lineup with lower fess, it will be hard for IRAs to compete."

If, however, you anticipate making periodic withdrawals from your account, you will likely get the most flexibility from the IRA option.

> *This option, along with rollover-to-a-new-401(k), was chosen by 12% of participants in the Vanguard group.*

Take a distribution or cash out

Because of the possible taxes and penalties, this should probably be the least chosen option for participants but is highly dependent on one's financial situation. Normally, distributions taken before age 59 ½ incur an early withdrawal penalty, but for those older than 55 who leave their jobs—for whatever reason—the penalty is waived, leaving just the possible taxes on withdrawals from pre-tax balances. This only applies to withdrawals from 401(k)s and not IRAs, so if you choose the rollover-to-an-IRA option, you won't be able later to choose this option; age 59 ½ is still your magic age.

> *18% of participants in the Vanguard study took this option.*

This is a decision not to be taken lightly, and we recommend consulting with your trusted financial advisor, being sure to address the conflict of interest in your relationship.

Please contact any of our offices to discuss your situation.

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