



## A job-hopper's guide to 401(k) rollovers

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With the first of the baby boomers closing in on retirement age and many workers changing jobs every two to three years, an increasing number of investors are grappling with whether to leave money in a 401(k) plan, roll it over into an IRA or cash out. It's an important question because for many Americans, the largest chunk of their nest eggs will come from company-sponsored retirement plans. What you decide to do with your 401(k) funds when you leave a job will be based on your financial circumstances, your investment needs and the transaction's tax consequences. Some issues to consider:

### Taking the cash:

The temptation when you leave a job may be to use those savings to satisfy short-term spending urges, even if doing so will mar your long-term retirement goals. Nearly half of employees cash out their 401(k)s, with younger workers and those with smaller balances more likely to do so, according to research from Hewitt Associates.

Comparing the advantages	
Keep it in 401(k)	Roll it over into IRA
Simplicity of preselected funds.	More investment options than 401(k).
Loans allowed.	More estate-planning flexibility.
Might have lower expenses.	Tax breaks for education, first-time home purchase.
Withdrawals at 55 without penalty if you've left job.	Consolidates retirement accounts in one place.
Source: USA TODAY research	

"It's the emotional vs. the rational or logical," says John Nersesian, a managing director for Nuveen Investments. "In many instances, people view these balances as found money, but there are few instances when cashing out makes sense." If you cash out, your company probably will cut you a check for 80% of the funds. The rest will be withheld for federal taxes. You also may be hit with a 10% tax penalty if you are younger than 59½. Even worse, you have to start over building retirement savings.

Regret the hasty withdrawal? You have 60 days from when you get the distribution to roll it over into an IRA or your new employer's 401(k) to avoid the penalty. If you miss this deadline because of a mistake by your financial institution, the IRS grants an automatic extension. Taxpayers could also get a break when unusual circumstances, such as an illness, prevent them from getting the money back in time.

One of the few instances it could make sense to take out your retirement savings is when you have highly appreciated company stock. Under a little-known IRS rule, investors can get a huge tax break by asking the company to take the stock out of the 401(k) plan in an "in-kind distribution" and then putting it into a regular investment account, says Ed Slott, an accountant in Rockville Centre, N.Y.

You pay income taxes only on the value of the company stock when you bought it. So, if you initially paid \$10,000 and it's now worth \$100,000, you'd pay income taxes on the \$10,000 when you take it out of the company plan. The rest of the value is taxed at lower capital-gains rates when you eventually sell it. The portion of the 401(k) plan that is not in company stock must be put elsewhere, such as an IRA, within a year to get the tax break.

### **Rolling over:**

When you transfer your 401(k) funds into an IRA rather than leaving them in the company's plan, you keep taxes deferred while making it easier to keep track of your investment. When you change jobs, "You lose touch of what's happening at the company," says Amy Noel, a financial planner in Boulder, Colo. "You're not talking about it at the water cooler anymore." That means the company could change investment options, and you likely would not be the first to know.

Also consider rolling money over into an IRA when:

- You want more investment options than are available in the 401(k) plan. Your company plan may have a set menu of prescreened investment options, but you can usually invest in individual stocks, mutual funds, even certificates of deposits in an IRA.
- You want control over your money. If you've changed jobs many times during your career, you may have retirement funds strewn all over. An IRA lets you consolidate this money in one place.
- You are planning to pass the money to your kids. IRAs give you greater flexibility in transferring these funds to beneficiaries, including letting your heirs stretch withdrawals over a long period of time rather than taking a lump sum.
- You plan to use some of the money to buy a first home or to fund your child's college education. If the money is in an IRA, the IRS will waive the 10% penalty for these uses, although you'll still have to pay income tax on the withdrawal.

To minimize the risk of mistake and to keep your money invested throughout the process, ask for a trustee-to-trustee transfer from your 401(k) to an IRA. The money is moved directly to the IRA without a check being written.

### **Staying in company plan:**

Many companies will allow you to stay in their 401(k) plan if you have more than \$5,000 in the account. If you're changing jobs, you also may be able to roll the money over to your new employer's plan. If you have \$1,000 to \$5,000 in your 401(k) and do nothing, your former employer is usually required to roll your money into an IRA. Reasons to leave money in a 401(k) plan:

- You can borrow from it. You can't borrow from an IRA.
- Some people like having a set menu of funds picked by the company, rather than having to wade through hundreds of investment options on their own.
- Expenses may be lower in company-sponsored plans. Large employers are often able to negotiate investment discounts. But compare costs because higher fees may apply to 401(k) investors who have left the company.

With both 401(k)s and IRAs, you generally have to wait until you are 59½ to withdraw money without facing a tax penalty. One exception with 401(k) plans: If you leave the company and are at least 55 years old, you can take distributions without penalty.