

When Changing Jobs, Don't Shortchange Your 401(k)

Your 401(k) plan can be a major component of your retirement savings. As you know, your 401(k) offers several different investment options and the chance to accumulate tax-deferred earnings. But what will happen to your 401(k) if you leave your job *before* you retire? You've got several choices — and it's *really* important that you make the right one, because your decision can have a major impact on your retirement lifestyle.

What are the main options regarding your 401(k)? Let's take a look.

- *You could cash out your plan.* If you cash out your plan, your company will likely pay you 80 percent of your account value, withholding the rest for federal taxes. And if you're younger than 59-1/2, you may well be slapped with a 10 percent penalty tax. Even worse, you'll have lost a key source of your retirement income. Avoiding this option has its benefits.

- *You could leave the money in your company's plan.* Not all companies offer this option, but many do. If you like the investment choices available in your plan, leaving the money alone may not be a bad idea. On the other hand, since you will no longer be employed by the company, you might fall "out of the loop" as far as 401(k) plan administration, so you might be caught by surprise if the company decides to change investment options.

- *You could move the money into your new employer's plan.* If your new employer has a 401(k) and allows transfers, you could roll the money over from your old plan into the new one. This might be an attractive option if you like the investment accounts offered in your new employer's plan.

- *You could roll the money into an IRA.* You may find several advantages to rolling your 401(k) into an IRA. First, your money will still have the potential to grow on a tax-deferred basis. Second, you can invest your funds in virtually any investment you choose — stocks, bonds, government securities, certificates of deposit, etc. Third, if you own multiple 401(k) accounts, you might find it advantageous to consolidate them into a single IRA, thereby making it easier to allocate and monitor your retirement assets. And fourth, IRAs give you greater flexibility if you're considering passing money to your children. In fact, if your children inherit an IRA, they can stretch withdrawals over a long period of time — over their entire life spans, if they choose — rather than take the money as a lump sum. Obviously, this ability can help them control their taxes and income streams.

If you do decide to move your 401(k) to an IRA, make sure to request a "trustee-to-trustee" transfer. The money will then be moved directly to an IRA, minimizing the risk of mistakes and keeping your money invested the entire time.

Before making any moves with your 401(k), consult with your tax and financial advisors. By choosing the right path for your individual needs, you'll help yourself on your long-term journey toward your important financial goals.