$avings Account$

A monthly savings tip from the American Savings Education Council (ASEC)

Take it or Leave it?

Job change is a point in time when a lot of important decisions are made—and one of the most important, certainly regarding your retirement security, is what you decide to do with your workplace retirement savings account.

There are several good options from which to choose—but first, a few things to consider:

<u>How large is your balance/distribution (at least approximately)?</u>

Why it Matters: The larger your distribution, the more options you have—and the greater the impact of taxes and penalties on your decision.

You will have to pay regular income taxes on the part of your distribution that has not already been taxed—employer contributions, your pre-tax contributions, and earnings. In fact, your employer is required to hold back 20% of your distribution check (and forward to the Internal Revenue Service) as a partial pre-payment of the taxes you will owe. Additionally, you may also have to pay a 10% penalty if you take out money from the plan and are under age 59-½.

<u>Are you close to retirement?</u>

Why it Matters: The sooner you need the money, whether due to age or financial circumstances, the fewer options you have—and you may care less about the impact of taxes

<u>Can you leave your account in the old plan?</u>

Why it Matters: A growing number of programs allow you to keep your retirement savings account invested in your current employer's plan, even if you no longer work there. You may also find that a new employer will allow you to "roll" your current retirement savings distribution into your new retirement plan (if applicable).

Got it? Now check out your options below …..

Option 1: Leave it (In your existing retirement plan account)

Pros

- You do not have to pay taxes (income and penalty) until you actually take the money out of the plan.
- You probably get to keep your existing fund options.
- Your account continues to grow on a tax-deferred basis.
- You may be able to borrow against these balances (depending on plan provisions).

Cons

- There may be restrictions on your access to this account.
- Your current plan may not allow this option.

Option 2: Roll it Over Into Your New Employer's Plan

Pros

- You don't have to pay taxes (income and penalty) until you actually take the money out of the plan.
- Your account continues to grow on a tax-deferred basis.
- You may be able to borrow against these balances (depending on plan provisions).

Cons

- Your new plan may not allow this option.
- You cannot roll over company stock (if any).
- You may not have access to funds you liked in your old plan.
- You have to liquidate existing fund options—and choose new options.
- Your balances may be out of the market during the rollover.

Option 3: Take it (to an IRA)

Pros

- You do not have to pay taxes (income and penalty) until you actually withdraw the money from the IRA.
- Your account continues to grow on a tax-deferred basis.
- You can roll it over to another employer plan later on (unless you roll it into an IRA that has other money in it already).

Cons

- You lose tax benefits of company stock (if any).
- You may have to pay higher fees than in your retirement account.
- You will probably have to sell your existing funds—and may have to choose new options.
- Your balances may be out of the market during the rollover.
- You cannot borrow against those balances.

Option 4: Take it (in cash)

Pros

- You get the cash now, and can do whatever you want with it.

Cons

- You have to pay taxes— 20% immediately withheld (perhaps more when you file taxes).
- You have to pay 10% early withdrawal penalty (if you are under the age of 59-1/2).
- You lose tax-deferred savings growth.
- You could spend your hard-earned retirement savings too soon.

Option 5: Buy an Annuity

Pros

- You avoid 10% premature withdrawal penalty.
- You have to pay income taxes only on amount(s) received.
- You can schedule a series of payments to fit your retirement income needs.

Cons

- You have to find/choose the annuity provider.
- Fees can be high (though not always visible).

Note: You can find additional information about your rollover options at:

FINRA: *Smart 401(k) Investing—Moving Your 401(k),* online at http://www.finra.org/investors/smartinvesting/retirement/smart401kinvesting/moving/

Internal Revenue Service—*Distributions from 401(k) Plans,* online at http://www.irs.gov/publications/p560/ch04.html#en_US_2013_publink10009020

Securities and Exchange Commission—*Switching Jobs,* online at http://www.investor.gov/employment-retirement/employment/switching-jobs

Securities and Exchange Commission—*Managing Lifetime Income,* online at http://www.investor.gov/employment-retirement/retirement/managing-lifetime-income