

# The Retirement *Strategist*

## Leaving Your Employer - Options for Preserving Your Retirement Assets

Leaving your current employer can be an emotionally trying time. Whether you've found another career in a different industry, a new job with a different employer, or if your company has just been facing tough economic conditions, leaving your employer will probably give you some mixed emotions. In our business, we always try to teach investors to separate emotions from economic decisions. This is particularly true when walking you through your various options regarding your company retirement assets, usually a 401(k) plan.

In general, you have four choices in what to do with your assets from your company's retirement plan:

- Rollover to an IRA
- Rollover to your new employer's plan
- Keep the assets with your existing company's plan
- Take your assets in cash

### OPTION #1: Rollover IRA

Our number one recommendation is usually to rollover retirement assets into a traditional individual retirement account, usually known as a Rollover IRA. Why is this choice usually best? Well, a Rollover IRA keeps your assets growing tax-deferred while also eliminating taxes which could eat up to 50% of your retirement assets.

If a Rollover IRA is the right choice for you, it's essential to get it done properly. You must arrange a rollover of your assets so that the money is transferred directly from your employer plan account to your IRA. If you receive the money directly - even if you subsequently put the money into an IRA within the 60 days allowed by the IRS - 20% of your assets will be withheld for federal income taxes. This equates to 20% less money in your account growing on a tax-deferred basis for your retirement! These monies may also be subject to a 10% penalty if you are under age 59 1/2.

deferred until you begin making withdrawals, usually at retirement, when you may be in a lower tax bracket.

- No Immediate Taxes or Penalties. You owe no taxes or penalties when you roll over your assets to an IRA. Without a Rollover IRA, taxes could eat up to 50% of your assets, depending on your tax bracket.
- A Wide Universe of Investment Choices. Through our firm, you can invest your IRA in almost every type of mutual fund or individual security to properly diversify your retirement assets.
- Control. With a Rollover IRA, you control your assets. This means you can access your money if you need it. Note that taxes and penalties may apply, however, if you need to withdraw your money before age 59 1/2.
- Roth IRA Conversion Option. If you are eligible and if it makes sense, you can convert to a Roth IRA after completing a Rollover IRA.
- Professional Guidance.

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When you establish a Rollover IRA with our firm, you can then utilize the guidance, strategies and assistance of full-time professionals whose sole business is helping investors reach their retirement goals.

## The Cons of a Rollover IRA

- **No Loans.** You cannot borrow against your account balance.
- **Required Minimum Distributions.** All retirement accounts except Roth IRAs require you to start taking withdrawals beginning at age 70 ½.
- **Early Withdrawal Penalty.** Withdrawals from any retirement account taken before age 59 ½ are generally assessed a 10% penalty by the IRS.

## OPTION #2: Transferring Your Assets To Your New Employer's Plan

If you have already found a new job, your new employer's plan may allow you to move your plan assets into their plan, where your assets will continue to grow tax-deferred. You'll need to find out from your new employer if you can do this immediately or if you have to wait until you are eligible.

If you have to wait until you are eligible, probably the best strategy is to move your assets into a Rollover IRA right away and then move money into your employer plan later when you are eligible.

## The Pros of Transferring Your Assets

- **Continued Tax-Deferred Growth.** As was the case with a Rollover IRA, your assets grow tax-deferred until you begin making withdrawals.
- **No Immediate Taxes or Penalties.** You will owe no taxes or penalties when you transfer your assets to your new company's plan.
- **Convenience.** Your employer plan retirement assets are in one place.
- **Loans.** If your new plan allows, you can borrow against your account balance, which you cannot do with an IRA.

## The Cons of Transferring Your Assets

- **Restrictive Investment Options.** Your investment choices are limited to those offered by your new employer's plan.
- **Limited Flexibility.** Your control and access to your assets will be subject to the rules governing your new plan, which may restrict your ability to move, exchange, or withdraw them.
- **Required Minimum Distributions.** All retirement accounts except Roth IRAs require you to start taking withdrawals beginning at age 70 ½.
- **Early Withdrawal Penalty.** Withdrawals from any retirement account taken before age 59 ½ are generally assessed a 10% penalty by the IRS.
- **No Professional Guidance.** If you rollover your assets to your new employer's plan, it will be hard to obtain investment guidance on your investment choices, asset allocation and other strategies.

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## OPTION #3: Leaving Your Assets With Your Existing Employer

When you change jobs, your former employer may allow you the option of leaving your assets with their 401(k) plan. You'll need to check with your current employer to see if this is a viable option.

Although we generally do not make this recommendation, the benefits of this option are essentially the same as if you transfer your assets to your new employer. Namely, you will enjoy tax-deferred growth and will not be faced with any immediate taxation of your assets. The cons of this option are also the same.

## OPTION #4: Taking Your Assets In Cash

One of the options you have when leaving your current employer is to take the assets in your retirement plan as cash. Generally speaking, this is our least favorite option because you may owe taxes immediately that could eat away up to 50% of your pretax distribution. Taking such a large tax hit could really undermine your retirement goals. Rolling over your entire plan balance to an individual retirement account is usually your best option if you don't have to use the money right away.

Being realistic, we know that in some cases there is a need for immediate cash to meet obligations. If you are in this situation, try borrowing from another source as your first source of cash. If you absolutely must dip into your retirement plan assets, take as little as you need, and rollover the rest to a Rollover IRA for the balance of your plan assets. If you take this approach, the sum moved into the Rollover IRA will continue to grow tax-deferred. (Just note that your previous employer is not required to permit a split distribution if your direct rollover amount is \$500 or less.)

### Pros of Taking Your Assets in Cash

- Flexibility. After you pay all the taxes due, you're in complete control of the money you have left.

### The Cons of Taking Your Assets in Cash

- Income Taxes. Your employer will be required to withhold

20% in federal taxes and you could also owe additional federal, state, and local taxes. And because your cash distribution must be added to your ordinary income when you report your taxes, your actual marginal tax rate could increase. Taxes could eat up to 50% of your assets.

- Early Withdrawal Penalty. If you are under age 59 ½, you usually owe an additional 10% federal penalty for early withdrawal.
- Loss of Retirement Income. Since you'll have less money to invest after-taxes, you lose the advantage of tax-deferred growth on the money lost to taxes. This could leave you with less income when you're ready to retire.

When leaving your employer, take the time to learn your options as to your retirement plan assets. You have several choices and making the wrong choice could cost you both money and lost flexibility.

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To learn more, contact Kathleen Bing at Retirement Strategies Group (619)300-1269. Retirement Strategies Group is one of America's leaders in retirement planning and endorsed by many prestigious national associations and affinity groups.



Retirement Strategies  
GROUP

9740 Appaloosa Road, Suite 200 San Diego, CA 92131

Phone Toll Free 800-423-4891

[www.MyRetirementStrategy.com](http://www.MyRetirementStrategy.com)

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