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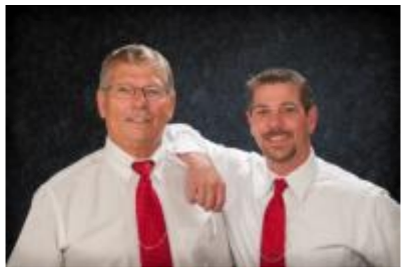
What should you do with your old 401(k)?

Jason Cryderman and Carl Cryderman,   Published 3:00 pm, Thursday, November 3, 2016



There are many decisions that arise when transitioning into a new job or into retirement. But one thing is for certain: you will be faced with the major decision of what to do with your 401(k). Generally speaking it's advised that when you leave your employer, your money should follow. However, in some instances that might not be the case. If you do decide to move your hard-earned and saved monies, you are still left with the big question of … where do I take it?

Option 1: Let it be: You may elect to leave your existing 401(k) with your former employer if you are pleased with its performance, options and advice received. If you are quickly approaching retirement, you may want to leave it be so that you can take advantage of penalty-free withdrawals from your account starting at the age of 55. The major drawback with this option is that you more than likely won't be able to continue contributing to the account, not being able to fund your existing retirement savings, and you won't have the free money benefit of employer contribution matches. Also, depending on fees associated with this account, what you have saved could be depleted over time if the fees outpace its performance.

Option 2: Roll it over to new employer's retirement plan: If your new employer allows you to, one major reason rolling over your old 401(k) to your new employer's retirement plan could make sense for you is if your employer is matching contributions (again, it's like free money, so take advantage). The potential disadvantage of this option is that you may not have a lot of flexibility, investment options or management advice with this new plan. Also, the cost of this plan could be more than your former plan or the costs associated with an IRA, so be sure to do your homework before making the move.

Option 3: Roll it over to an IRA: In our experience, one of the more popular options for retirement savers and soon-to-be retirees is to roll your 401(k) to an IRA. The advantages of doing so include more control of how your money is invested: you control the options available, the fees and the advice you receive. With an IRA you typically have more options, higher quality of investments, personalized advice and management and potential tax advantages on your (and your beneficiaries') distributions. The potential shortcoming of this option is that you could be paying (although nominal) a maintenance fee on the account. Also note the IRS limits access to your money inside an IRA if you are younger than 59 1/2 without penalties or restrictions.

Option 4: Cash it out: Funds that are earmarked for retirement should remain that way until you need to use them to fund your retirement. But we all know too well that sometimes life takes a turn for the worse and those funds could mean that you are able to put food on the table and a roof over your head. In that dire circumstance, cashing out your 401(k) may make sense. Be aware this option does come with a lofty price tag, including being subject to additional income tax (and possibly a higher tax bracket), and if you are under the age of 55 there are additional early distribution penalties/fees that may apply.

Company sponsored retirement plans can play a significant role in funding a future retirement, which is why it's so important that you carefully weigh your options when you are in the position of changing jobs or retiring. And remember, everyone's personal financial situation is different, and it's important that you consult a licensed professional on which option you believe makes the most sense for you.

Great Lakes Investment Advisors is a Midland-based wealth management firm, with Jason Cryderman serving as president and Carl Cryderman as vice president. Visit www.greatlakesinvestmentadvisors.com for more information

GREAT LAKES
INVESTMENT ADVISORS, INC.
MIDLAND, MI (989)-835-7203