



NACHMAN NORWOOD & PARROTT
WEALTH MANAGEMENT CONSULTANCY

To Leave or Not to Leave Your Retirement Plan When You Leave Your Employer

When you leave a job – whether due to layoff or for any reason – you are often faced with a decision about your 401(k) or other retirement plans. The decision is whether to keep your 401(k) funds with your former employer, roll them over to an IRA, or pay the taxes and cash out. Over time, many employees have accumulated substantial balances in these employer plans which are designed for tax-advantaged retirement savings.

For this reason, it is wise to understand the implications of each option. Some employers offer the opportunity to maintain your retirement account at the company. On the other hand, by rolling over your funds to an IRA, you can maintain control, manage the funds any way you want, and remain subject to IRA rules alone rather than the limited investment selection and perhaps restrictive distribution policies of your former employer. Note, however, that while you are permitted to take loans from your 401(k) plan, this is not possible in an IRA, and depending on the investments used to fund the IRA, charges and expenses could be higher or lower than those you would incur inside your 401(k) plan.

At your direction, your employer can transfer your distribution directly to another qualified plan or to a rollover IRA. A rollover occurs when you withdraw cash or other assets from one eligible retirement plan and contribute all or part of it within 60 days to another eligible retirement plan. Under this option, you would direct your plan administrator to make a direct and tax-free transfer of funds from your former employer's plan to a rollover IRA at a financial institution of your choice. That way you maintain the tax-deferred status of your retirement account, consolidate all retirement accounts for easier management, and benefit from increased investment flexibility.

When you roll over a retirement plan distribution, you generally don't have to pay tax on it until later when you take cash withdrawals. By rolling over, your funds have the potential to continue to grow tax-deferred.

Job changers should resist the temptation to spend down their retirement savings, whether they are moving to a new job or plan a hiatus from work. When you fail to roll over, you not only pay tax on the amount you receive, but you may, if you are under age 59 1/2, be subject to an additional 10% penalty on the early distribution you receive. Sound investment planning dictates that you would draw on other funds first, leaving retirement plan spending as a last resort.

If you are simply moving your IRA from one institution to another and you do not plan to use the funds, you should consider making an IRA transfer and not a rollover. This is a simple direct transfer from IRA to IRA between financial institutions to better manage and potentially grow your retirement assets.

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