MONEY

What to Do With Your Old 401(k)

NewsUSA

(NU) - Okay, so you finally landed that new job. (Congrats.) Or maybe you "moved on to explore other opportunities." Either way, what are you now going to do about your old 401(k)?

It's been estimated that there are about 15 million such "orphan" accounts left behind by former employees, mainly because of either inertia or plain confusion over strict rules for moving the money. And since the IRS doesn't allow procrastinating on a key decision – you've got just 60 days to reallocate into a different tax-advantaged account if you withdraw even a dime – here's a rundown of your options to avoid what could be a costly mistake:

- **Option No. 1: Cash Out**

Unless you're in dire financial straits and really, really need the bucks to live off, the general consensus is this is a bad idea. Aside from ceding potential gains in your portfolio, as notes Sarah Walsh, vice president of retirement solutions at Fidelity Investments, "you will have just given the IRS a huge chunk of the money you've been saving for years. That's money you won't have for retirement."

How so? Twenty percent is withheld to pay federal income taxes – your state taxman may want a cut, too – with another 10 percent "early-withdrawal penalty" slamming those under age 59 1/2.

Or, to use an example from Fidelity's website (www.fidelity.com), say you're a 36-year-old who raids her $50,000 account. After federal taxes and penalties, you'd be left with only $32,500.

- **Option No. 2: Roll the Money Over to Your New Employer's Plan**

Double congrats if your boss will be matching all or part of your new 401(k) contributions.

That could be a good sign, but know that not all firms accept rollovers. If yours does, your big question is this: Are the plan's investment picks to your liking?

- **Option No. 3: Roll the Money Into an IRA**

As with the above option, you get to avoid the tax bite of cashing out. The difference here, though – and these could be major plusses – is that not only do IRAs offer more investment choices than the typical 401(k), but you're also able to make penalty-free withdrawals for qualified education expenses or up to $10,000 for a first-time home purchase.

"The rollover process is relatively easy," says Walsh. "And if you already have other accounts elsewhere, it may be simpler and more effective to consolidate under one roof."

- **Option No. 4: Leave It With Your Ex-Employer**

Penalty-free withdrawals are allowed for those who leave their jobs at age 55 or older – as opposed to 59 1/2 for IRAs – and unique investment options might warrant just letting things ride. But some people forget the account exists – *no, really* – and further contributions are verboten.

Whatever you decide, remember the clock may be ticking for you to contact your old 401(k) administrator.