Options for Old Retirement Accounts

Coworkers, bad managers, and old notepads aren't the only things left behind when someone leaves for a new job. Retirement plans are sometimes abandoned too — but it can be costly to do so. When making a professional change, be sure to explore the options available for your previous retirement plan to ensure the best decision is made to maximize the account's value.

Rollover To an IRA

One option to consider is rolling the retirement plan into an Individual Retirement Account (IRA). A rollover is not considered a taxable event, and thus can preserve the tax-advantaged status of a prior retirement plan as it transfers into an IRA.

A benefit of moving funds to an IRA is that it opens up more investment options. Employer-sponsored retirement plans are usually limited to various mutual funds, whereas an IRA can be invested in stocks, ETFs, bonds, and other assets. On top of that, an IRA may come with lower fees than those charged by a retirement plan administrator.

Rollover To a New Workplace Plan

Old retirement plans can also be rolled into the ones offered by new employers. The benefit of this move is that it consolidates assets in a single account, which may make it easier to manage funds.

Advisors recommend assessing the new plan's fees and investment options before moving an old plan over. If fees are high and investment selections are limited, an IRA rollover might be the better route.

Cash It Out

Rather than roll the funds to preserve the tax status, an old retirement account can be cashed out and distributed to a bank account. However, tax preparers caution that this can come with a higher tax bill and penalties.

If you are under 59 ½ years old, you will be required to pay income tax and a 10% penalty on the early distribution. If you are above that threshold, you will avoid the penalty, but still face the taxes.

If a nest egg has been sufficiently stockpiled over the years, the cash-out option is likely not the best route.

Leave It Be

Just because you're making a change doesn't mean your retirement plan must. Old retirement plans can be left in place, even after employment ends. If the plan has attractive investment options and lower fees, it could make sense to let the funds grow in the existing account, rather than transferring them.

That said, advisors strongly urge those who take this route to monitor and keep tabs on the account regularly. It's always possible that the plan could change to a new administrator, and in some cases, administrators may automatically initiate an IRA rollover.

With multiple options and issues to consider, employees who are changing roles and unsure of how to handle their existing retirement accounts may want to consult with an advisor to determine which path forward will be best for their nest egg.