



Helping Employees Make the Most of Their 401(k)/403(b) Plans

Changing Jobs? Don't Cash in Your Retirement Plan...you have options.

You've taken a new job - what you want to do with the balance in your 401(k) plan account that you had with your previous employer? Do you take the cash or keep it growing for your retirement?

It's tempting to take the money and run. In fact, with frequent job changes on the upswing, many people - particularly those early in their careers - face this same dilemma. Before you have visions of vacations in tropical paradise or new stereo systems, however, take a moment to think about the real purpose of this money. It's not a windfall. It's money you may need to live on in retirement.

Make security a priority

Many employers now offer 401(k) plans, which let you control your own retirement savings. If you spend the balance in your plan each time you leave a job, you could be seriously jeopardizing your future financial security.

What's more, your balance will take a pretty big hit from taxes and early withdrawal penalties if you take the cash. You could lose from 30 to 50 percent of the amount you take out.

For example, let's say you have a balance of \$10,000 in your plan and you're in a 25 percent federal income tax bracket. Here's what you'd have left after paying federal income taxes and the 10 percent IRS early withdrawal penalty (if applicable):

\$10,000
 - 2,500 (federal income taxes)
 - 1,000 (10% early withdrawal penalty)
 \$ 6,500

Chas P. Smith & Associates, PA, CPA's
 1509 South Florida Avenue, Lakeland, FL 33803
 Telephone (863) 688-1725; Fax (863) 688-0692
www.my401kpilot.com
 email pgolotko@my401kpilot.com

Before you've even paid state and/or local income taxes, the amount you receive is already down to \$6,500 - that's 65 percent of your original balance! If you kept that same \$10,000 growing in a tax-deferred retirement plan instead of spending it, you'd get a much bigger bang for your buck over the long term. Assuming a hypothetical 8 percent rate of return compounded monthly over a period of 25 years with no additional contributions, that \$10,000 would be worth \$73,402! Your own plan account may earn more or less than this hypothetical example. Income taxes will be due when you withdraw from your account. Investing in this manner does not ensure a profit or guarantee against loss in declining markets.

Here are three ways you can maintain, rather than spend your 401(k) plan account balance.

Leave it be

As long as you have a balance of more than \$5,000, many employers will let you leave your money growing tax-deferred in their 401(k) plan (this minimum varies by plan - check what amount your own plan requires.) If you have less, they may ask you to take the money out. Leaving your money in the plan may be a good choice if you like your investment options. You may have access to choices like a company stock fund or separately managed account that wouldn't be available outside the plan.

You can take it with you

As 401(k) plans have become more popular, they've also become portable. That is, you can take your vested balance (the amount that you are entitled to under the plan rules) from job to job. Thanks to the Economic Growth and Tax Relief Reconciliation Act of 2001, the portability rules for rollovers between various retirement plans are better than ever. You can now roll your eligible rollover assets to and from 401(k), 403(b), and governmental 457(b) plans, provided those employer plans accept these rollovers, as well as IRAs. Of course, that depends on whether your new employer accepts money from a previous employer's plan. But these days, most do as a way to encourage you to keep your retirement savings intact.

One of the best ways to move money from an old 401(k) to a new employer's plan is through a direct rollover. You would have your old employer send a check with your 401(k) balance directly to your new employer's plan trustee. This avoids the mandatory 20 percent federal tax withholding that your old employer would have to take out if you had the check made payable to you.

Rollover to an IRA

Another way to allow your retirement savings to grow tax-deferred and have a wide variety of investment choices is through a rollover IRA. A rollover to an IRA involves having your employer send you a check for your eligible 401(k) balance that's made out to the new IRA custodian, so that no taxes are withheld.

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You could also do a 60-day rollover, where you take the money and then deposit into an IRA account within 60 days of when you receive it. But, since your employer is required to withhold 20 percent for federal taxes, you would have to add back in the 20 percent from your own pocket if you want the entire amount to go into your IRA account.

Clearly there are several good reasons why you have several choices for keeping your 401(k) plan savings intact, rather than spending it. Both the government and employers want to encourage people to save for the future. When you see how much your retirement savings could grow over time, isn't it worth sacrificing a little luxury now for the potential of more security later on?

Call for a free half-hour analysis of your retirement account.

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