Leaving your job?

A new job or retirement provides you with new 401(k) options

If you've changed jobs or recently retired, you've opened the door to new opportunities for you—and your 401(k) account. What you do with this money is an important decision, and the 401(k) in question may represent a good portion of your retirement savings. It's best to understand your options, so you can make the most of this opportunity and avoid taxes and penalties.

Generally, you have four options:

1. Withdraw the money as a lump sum

Unless you're a certain age, it's almost always a bad idea to cash out of a 401(k) plan. If you take a 401(k) distribution before age 59½, taxes and penalties can take a big bite out of your retirement savings. First, you will pay 20% in withholding that your employer is required to take as a prepayment of federal income taxes. And, if you haven't reached at least 55 when you leave your job, you will pay a 10% early distribution penalty. What's more, depending on your circumstances, you may still owe additional federal and state income taxes when you file your taxes for the year.

It gets tricky if you own company stock. If you meet the requirements for a lump-sum distribution and all or part of it is in employer stock, you may be eligible to defer taxes on the portion considered net unrealized appreciation (NUA); that is, the gain on the shares while they were held in the plan. Your UBS Financial Advisor can provide you with more information on this special treatment, can outline the risks associated with overconcentration in one stock, and if appropriate, can recommend ways you can avoid the risks of overconcentration.

Keep in mind: Unless you are facing financial hardship, it's wise to keep your money invested and deferred from taxes—by rolling it into a traditional Individual Retirement Account (Traditional IRA), a new plan, or leaving it in your existing plan until you retire.

2. Leave the money in the existing plan

If you keep your money in the current plan, it will stay tax-deferred and you can remain invested in the plan's investment options. Your former employer is generally required by law to let you leave a balance of over $5,000. With this option, penalty-free withdrawals may be available to you if you leave your job in the year you turn age 55 or later, if certain conditions are met.[1]

Keep in mind: You can no longer make contributions to a former 401(k) account, and you are subject to any plan restrictions or possible fees for maintaining a terminated employee account. You've moved on. Should your account too?

3. Roll the money into a new 401(k) plan

If you move to a new job and are eligible for the 401(k) plan, you may be able to roll your existing account into a new plan. You must roll the money directly over into the new plan after taking a distribution to avoid the 20% mandatory withholding and keep your money tax-deferred. You can roll over your entire distribution or a portion of it, although any money not rolled into the plan would be subject to the 20% withholding and potential additional income taxes and penalties. Be sure to review the plan features and provisions when deciding.

Keep in mind: In addition to preserving your money's tax-deferred status, rolling all of it into your new plan consolidates your funds into one 401(k) account versus two, making things easier to track.

4. Roll the money into an IRA (Traditional or Roth)

If you roll your 401(k) money into an IRA, you have increased flexibility and control. A "Rollover" IRA may open up a much broader range of investment options than those available through most 401(k) plans, along with access to advice you may welcome at this point. With a Rollover IRA, you can typically choose from a wide variety of mutual funds, as well as individual stocks, bonds, certificates of deposit and U.S. Treasury securities.

Rollover IRAs are also free of plan-related restrictions and offer certain estate planning benefits for your loved ones, such as the ability to stretch an inherited IRA across generations, potentially reducing their tax burden.

Keep in mind: You have the option of a Traditional or Roth IRA for your rollover. The difference between the two is primarily how they are taxed. You can roll over a traditional 401(k) into a Traditional IRA tax-free, deferring taxes until you take a distribution, typically at retirement. You can roll over a Roth 401(k) into a Roth IRA tax-free

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If you roll over a traditional 401(k) into a Roth IRA, however, this is considered a "Roth conversion," so you'd owe taxes on a portion of the money. Any distributions taken from the Roth IRA are tax-free if the account was held for at least five years and you are age 59½ or older, making a first-time home purchase (lifetime limit of $10,000 per taxpayer), are disabled or pass away. It's a good idea to consult with your UBS Financial Advisor if you are considering a Roth IRA conversion.

Your distribution options at a glance

	Benefits	Considerations
1. Withdraw as a lump sum	• Access to the funds • Special treatment for company stock if it is placed in a taxable account	• Potential taxes and penalties • Liquidating your 401(k) leaves you with less for retirement and forfeits tax-deferred growth • No creditor protection
2. Leave in your existing plan	• No taxes or penalties • Continue tax deferral • Familiarity with investment choices • May offer unique investment options unavailable in an IRA • May be able to take penalty-free withdrawals at age 55[1] if you are no longer employed • May be able to delay required minimum distributions (RMDs) past age 70½ if still employed • Creditor protection	• Can no longer make contributions • No access to loans • Potentially limited investment menu • Possible administrative fees for terminated employees • Limited distribution options • May limit custom beneficiaries such as a trust
3. Roll over to a new 401(k) plan	• No taxes or penalties • Continue tax-deferred growth • Potential access to loans • Can continue contributions • May offer unique investment options unavailable in an IRA • Consolidation of assets; fewer websites and passwords to remember • May be able to delay RMDs past age 70½ if still employed • Creditor protection	• Subject to new plan provisions, restrictions or fees • Potentially limited investment menu • May limit custom beneficiaries such as a trust
4. Roll over to an IRA	• Easy to set up • No taxes or penalties when rolled over • Continue tax-deferred growth • Can continue contributions • Broad array of investment choices • Access to advice • Consolidation of assets; fewer websites and passwords to remember • Potential estate planning benefits and ability to customize beneficiaries • Not subject to change in your employer's plan or policies	• Can't take advantage of plan-specific investment options • No access to loans • Must be age 59½ before taking penalty-free withdrawals • Administrative fees • Possible limitations on creditor protection due to state laws

Consult your Advisor

What to do with retirement money is a major financial decision. When faced with change, it's the perfect occasion to make sure you're on track toward a secure retirement. Your UBS Financial Advisor can help you review your current situation, explore your options and create a plan that fits your personal circumstances.

Let's have a conversation

We can help you determine whether a rollover or other option for your 401(k) money makes the most sense for you.

Your life today is much bigger than your investments. And achieving your life's goals is being challenged in new ways. By the realities of a longer retirement. The demands of caring for aging parents. The threat of online identity theft. And the financial burden of long-term healthcare. Your UBS Financial Advisor can help you understand how all the moving parts of your life can fit together to help you pursue what's important—including how an IRA rollover can impact your long-term financial plan. It's what we call: Advice. Beyond investing.

[1] If an individual separates from service during or after the calendar year in which he/she attains age 55, distributions from the employer's plans (but not IRAs) are exempt from the 10% early distribution penalty. In order to maintain this penalty-free distribution, the funds cannot be rolled over into an IRA.

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