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Speaker 1

Welcome. My name is Andrew Baron, and this is Well... It Depends! The podcast where I present the pros and cons of financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode, I ask the question, what to do with my old 401K?

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Well... It Depends! is sponsored by my firm John G. Ullman and Associates. We are a team of financial planners, research analysts, tax specialists and support staff, all working together to give our clients a comprehensive experience. If, after listening, you'd like to discuss the situation with one of our financial planners, including me, please email info@jgua.com. Before we begin a short disclaimer this is being recorded on September 29th, 2022.

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The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives. Getting into it. What to do with my old 401K?

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Well... It Depends! You started a job, contributed to your 401K and got that employer match. And then for some reason or another, things changed and maybe you found a better position at a new company or retired. What should you do? Well, let's review your options. The first is cash out. Financial planners are typically going to steer people away from this option, namely because 401K accounts are specifically intended to provide income in retirement, not before. There are penalties for withdrawing early and, excluding ROTH accounts, withdrawals from your 401K are taxed at ordinary income rates.

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This isn't a problem when you are retired, but surplus income when you're not retired can be a less than optimal tax strategy. And since you're pulling money out now you're missing out on that future tax free growth. There are some times it can be a viable option, a major purchase, specifically a first time home purchase

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is excluded from the 10% penalty for early withdrawals. While this is not the ideal savings vehicle for a home in some situations it can be a good fit. Another example is when someone is battling extreme debt with very high rates, such as 20 or 30% from a credit card. It is not reasonable to expect these kinds of returns from the stock market, especially over the long term.

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Therefore, withdrawing from a 401K to pay down some debt may be part of a solution. These are rarer and most people are likely to consider the other options instead. So what are they? Keep it there. If you're satisfied with the service and performance of your old 401K, you may choose to leave it there and keep your investments.

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If you're over age 55, some 401K plans allow penalty free distributions after separation of service. This can allow some people to retire earlier than they maybe otherwise would have been able to do. If you have company stock in your 401K, there is a specific transfer you can do called an NUA or net unrealized appreciation.

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This NUA is the difference between what was originally paid for the stock and what the current market value is. This allows an individual to defer taxes on the appreciation or the difference in these values until they decide to sell them sometime in the future. This distribution must occur directly to an individual account and cannot be rolled over to an IRA.

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If this option applies to you, I strongly encourage consulting with an advisor to implement this properly, since it's much more complicated than simply taking a distribution. Not all plans allow funds of former employees to remain depending on minimum account size or years of service. Which brings us to our final option, roll the assets into a new plan. If you took a new job, you may consider rolling your old 401K into the new 401K.

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This keeps accounts consolidated and easy to keep track of. The alternative is rolling into an individual account or an IRA. IRAs have more investment options than 401K's, and you'll need to decide if you want to manage it yourself or have it professionally managed. Unlike employer sponsored plans like the 401K, IRAs have penalties for any withdrawals made before age 59 and a half.

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To recap, ultimately you have three options. Cash out, keep it there, or roll over into a new account. Remember, retirement accounts are supposed to be for retirement and using them before you are retired can have consequences. You're missing out on all of your future gains by cashing in early. And if you're not old enough, there are penalties you have to pay in addition to the taxes.

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In some certain situations, it can be a viable option. Keeping your 401K can work for some if you're satisfied with the investment options and the service from your provider. If you have highly appreciated stock and are looking to participate in the NUA strategy, discussing your situation with an advisor about how to best handle the transfer is strongly recommended.

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Finally, the last option, rolling your assets into a new plan such as a 401K to consolidate assets or an IRA, for more investment choices. Remember, there's no perfect solution, and working with an advisor who looks at the whole picture can help you stay on track to meet your goals. So to answer the question what to do with my old 401K? Well... It Depends!

*Speaker 1 = Andrew Baron, CFP®, Enrolled Agent, Associate Advisor