What To Do With Your 401(K) When Switching Jobs

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Deciding to look for a new job comes with a whirlwind of considerations. While salary and benefits are probably at the top of your mind, don't forget about what you're going to do with your existing 401(k) account. It's best to think about it now so when that new opportunity presents itself, you already have a plan of action in place.

Here are four options for how to handle your 401(k) when switching jobs for a new opportunity:

1. Keep your money in your former employer's 401(k) plan

The simplest move is to do nothing. There's nothing wrong with staying enrolled in your current plan. If it's performing well, you may be happy keeping your money growing where it is. However, keep in mind that if your employer is contributing a percentage through a match, that will cease once you conclude your employment with them. Another thing to consider is your vested amount, if applicable. Some employers have restrictions on your vested amount based on your time of service.

2. Roll your money into your new employer's 401(k) plan

Most employers introduce you to their 401(k) plan during the orientation process, and you'll also most likely be presented with the proper forms to roll over (i.e., transfer your money) from the last 401(k) to the new one. It's a relatively simple process and it gives you more control over the growth of your account. You'll have the chance to make specific elections to customize your investments, and most employers offer a percentage match to your 401(k) contributions. This is virtually free money the company is going to give you, so if you choose this option, it's sensible to contribute at least a percentage equal to the company match.

3. Move your money into an Individual Retirement Account (IRA)

There is no rule that says you have to keep your money in a former or current employer's 401(k) plan. If you intend to actively plan and strategize your investments, or if you have a trusted friend or financial advisor to help manage your elections, this is likely the option for you. While an IRA won't come with an employer match, it does come with more freedom. When you enroll in your employer's 401(k) plan, there is usually a limited list of investments and mutual funds specifically chosen by the plan administrator. When you open an IRA, there's virtually no restriction to your investment choices.

4. Withdraw your 401(k) balance

If you're close to retiring, it might be wise to consider cashing out (withdrawing) your 401(k) altogether. Keep in mind that if you're younger than a certain age, the IRS can penalize you for an early distribution. The IRS can also tax you at a higher amount if you cash out prior to retirement age. However, if you have a pressing need for income, this option might be helpful.

Whichever option you choose for your 401(k) when switching jobs, it's advisable to consult with a CPA, banker, or financial professional to discuss which option is right for you. By taking the time to determine which option you want to pursue, you'll be prepared the next time you're transitioning jobs. Call us today at 866-762-8392 to speak with a PlainsCapital representative about your retirement savings options.