Saving

Moving on? What will you do with your retirement plan?

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If you plan on starting a new job with a new employer or hope to exit the work force to raise your family or to pursue an educational opportunity, you'll be receiving what could be a significant sum of money from your employer's retirement plan. Determining what to do with that money is a big decision. It's also a very important one – one that could have a long-lasting impact on your future financial security. Here's an overview of the major available options for a retirement plan distribution as well as a discussion on the pros and cons of each one.

Keep your money in the plan

If your current retirement plan allows it and you are satisfied with your plan's management and investment choices, **leaving your money where it is may be a smart option**. When you leave your retirement money untouched in your current retirement plan, you will defer having to pay current income taxes and avoid a possible early withdrawal penalty. Your money will continue to benefit from potential tax-deferred growth. You will only pay taxes when you withdraw your money at retirement age.

Just as importantly, **this option allows you to continue to maintain full control over your account**. You have the flexibility to move your money elsewhere if you choose to do so at a later date.

Roll your money over into a new plan

You can take the money from your current retirement plan and either **roll it over into a new individual retirement account (IRA)** that you establish with a financial institution or **roll the funds over into your new employer's retirement plan**. With both options, your money will continue to benefit from potential tax-deferred growth, no income taxes will be due on the transfer to the new plan and you will retain full control over how your money is invested.

It is extremely important that you ensure that your retirement plan account balance is rolled over directly into an IRA or to your new employer's tax-deferred retirement plan. This is known as **a direct trustee-to-trustee transfer**, and it ensures that your money remains tax deferred and that you won't get hit by a 20% tax withholding. If you do not opt for a trustee-to-trustee transfer, the check for the funds in your old plan is payable to you, and the plan administrator is required to withhold 20% of the total for estimated federal tax payments.

Opt for a combination lump sum and direct rollover

You also have the option of **taking a portion of your retirement plan payout in cash** while making a direct rollover of the remainder to an IRA. The money you roll over to the IRA will potentially continue to grow tax deferred, while the part of the payout you receive in cash will be taxable to you in the year that you receive it. Just be aware that if you are under age 59½ when you take the cash payout, you may be required to pay a 10% early withdrawal penalty as well.

While you continue to benefit from the tax-deferred growth of the money you roll over into an IRA, you will also be able to access your IRA money at any time.

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Take the money in cash

The opportunity to access what could be a large sum of money can be a very appealing option for many people. In some ways, it can appear to be a little like coming into an inheritance or winning the lottery. However, if you are ever tempted by this option, **you should know that cashing out your retirement plan has more drawbacks than advantages**.

The biggest drawback is that you will have to pay income taxes on the cash payout at your ordinary income tax rate in the year you receive the money. Your former employer is required by law to withhold 20% of your distribution as partial payment on your tax bill for the year before you even receive the check. Additionally, if you are younger than age 59½ when you take the cash distribution, it's likely that you will have to pay a 10% early distribution penalty. The penalty combined with income taxes can significantly reduce the amount of your expected retirement plan payout.

One other, often overlooked, aspect of taking a cash payout from your retirement plan is that you'll have to start all over again when it comes to your future retirement security. **The reality is that when it comes to saving for retirement, time is your friend.** The longer you save and invest, the more you can potentially benefit from the power of tax-deferred compounding. By emptying your retirement savings account, you may find it difficult to make up for that lost time. It could also mean that you have to **delay retirement, work part-time while retired or live on less after you stop working.**

> If you are interested in exploring what type of retirement plan distribution option may be suitable for your needs, be sure to reach out to your financial and tax professionals. They can be invaluable in helping you assess your retirement plan options.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

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