Money in Motion

When it comes to old 401(k) accounts, it pays to know your options

Like most people, you're likely to change jobs several times during your working life. And you'll likely have a 401(k) account through your former employer to deal with. Here are the four options for what to do with an old 401(k) account.

1. Leave Your Money Where It Is

If the plan allows, you can leave the assets in your former employer's 401(k) plan, where they can continue to benefit from any tax-advantaged growth. There is something to be said for having familiar investment choices, and your former employer's plan may provide access to investment choices and plan services that aren't available in your new plan.

If you've just changed employers, find out if you must maintain a minimum balance in your old plan, because many plans require a minimum balance of $5,000 to remain in the plan. You'll also want to review and understand the plan's fees, investment options and other provisions, especially if you may need to access these funds at a later time.

2. Roll Your Money Into a New Employer Plan

If you're changing jobs, you can roll your old 401(k) account assets into your new employer's plan (if permitted). Many people like the convenience of having just one account to keep track of and manage. In addition, your new employer's plan may offer investment options and services not available in your former employer's plan. This option also maintains the account's tax-advantaged status.

Find out if your new plan accepts rollovers and if there is a waiting period to move the money. If you have Roth assets in your old 401(k), make sure your new plan can accommodate them. Also, review the differences in investment options and fees between your old and new employers' 401(k) plans.

3. Roll Over Your Money to an IRA

For more retirement investment options and to maintain the tax-advantaged status of the account, roll your old 401(k) into an individual retirement account (IRA). You will have greater flexibility over access to your savings (although income taxes may apply, along with early withdrawal penalties, if you don't directly transfer the funds and are under age 59½). Before-tax assets can roll over to a traditional IRA whereas Roth assets can roll directly to a Roth IRA. Review the differences in investment options and fees between an IRA and your old and new employers' 401(k) plans.

4. Cash Out

Cashing out your old 401(k) may have significant financial consequences. Not only are those funds considered taxable income and subject to an immediate tax withholding, you may also be subject to a 10% early withdrawal tax penalty if you cash out before age 59½. Additionally, withdrawals will lose the potential for tax-deferred growth.

The Bottom Line

If possible, choose an option that allows you to continue to benefit from your savings' tax-advantaged status and preserve and increase the growth potential of your wealth. Other important factors to consider include fees and expenses, along with available services. Please consider consulting with a tax professional.

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Eliminate the Guesswork

Creating an estate plan is a key component of achieving financial wellness

Most people don't spend too much time thinking about end-of-life planning on a daily basis. But you may have loved ones who will soon face those issues. While it's not pleasant to think about, you may be the one who ends up having to sort out their affairs. In addition, there will come a time when you need to think about yourself and your own family.

In a nutshell, estate planning is writing down what you want to happen after you die. This is commonly accomplished using wills, trusts, advance directives and beneficiary designations on accounts. If you don't have an estate plan when you pass away, you force people to guess what you wanted. Guessing can place a lot of stress on your family. Creating an estate plan is actually one of the most generous things you can do for them. Here are four key reasons to create an estate plan.

Choose How To Distribute Your Assets

An estate plan allows you to allocate your assets according to your wishes. If you don't have an estate plan, your money and property may not get to the correct person. In addition, some people who get an inheritance in one big sum may have the potential to spend it all pretty quickly. Creating an estate plan identifies specific inheritances for certain beneficiaries, especially those who might be young, immature or irresponsible.

In addition, if there is not a will when you die, it is called dying intestate. Each state has a succession formula for who receives money and property left behind. In most cases, if the state can't find anyone, it goes to the state where you passed away.

Set Up Care for Dependent Children

Families with dependent children should make a plan for childcare if both parents pass away. Many young couples don't think about it, but in the event of both of their untimely deaths, they need to appoint someone to be the guardian of their children. Make sure that if you have minor children, that you have named someone to be the proper caretaker. Although it can be uncomfortable having the conversation on who will be the caretaker (your parents or your spouse or partner's parents, for example), setting up an estate plan can prevent arguing among family members.

Avoid Probate

If you die without a will, your estate will go through probate. The probate process in most states takes a minimum of seven months to allow creditors to put through claims. In addition, it's a public hearing, which allows people to know your personal business. The probate process can also be expensive, and legal costs will reduce the amount your loved ones inherit. Essentially, the probate process gets in the way of a smooth transition of your assets to your loved ones.

Minimize Taxes

Some advance planning can save your heirs from getting a big tax bill. For example, depending on whether or not your heir is a spouse or nonspouse (and subject to certain rules), they may need to pay income tax on money they inherit and withdraw from a traditional IRA. However, if they inherit a Roth IRA that was funded for five years or more prior to your death, distributions can be taken tax-free. In addition, if you plan to leave behind an estate in excess of $12.06 million (based on 2022 Internal Revenue Service figures), you need to make a plan for estate taxes, or the so-called "death tax." Some states also have an estate or inheritance tax with a different threshold. You can reduce these estate taxes with an estate plan.

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