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Retirement funds and job changes

"Financial Fitness" columnist Thomas J. O'Connell shares how best to manage an old job's retirement funds when starting a new job

Thomas J. O'Connell, Correspondent | *December 7, 2016*

It is the end of the year and for some, this is the time they are starting new jobs or looking for new jobs. Statistically speaking, Gen-X ers and Millennials on average will have four to six different employers over their working careers. Why is that important? Because most of you have or will have money in 401ks, 403bs, 457s, TSPs or some other contribution plan, and when you change jobs it is important to know what options you have or what you should do with those funds.

Please note, I am going to be very generic here. Some plans like SEPs or Simple 401ks have nuances, so please, please, please see a professional advisor before doing anything, especially one that has a real understanding of these types of accounts, such as an Ed Slott Elite IRA Advisor. These folks are specially trained to deal with such situations.

There are basically two things you can do, but within those two are various options.

First, you can leave it where it is. In the “old days,” plans didn’t really want you to do that, but now that the investment companies have more and more money under management in these plans and charge on average 1.5 percent, they are earning more and more in fees, which they don't want to give up.

Your second choice is to move that money, and this is where it gets complicated. One option is to take it and put it in your pocket. By far, this is the easiest AND WORST choice you can make. You lose a valuable retirement asset (because we both know you'll spend it), it is 100-percent taxable as ordinary income, plus if you're under 59 ½, there is an additional 10-percent early distribution penalty. Some people may want to do an indirect rollover, where they receive the funds first but intend on rolling it into another plan or IRA. I would avoid this at all costs. It is fraught with danger. To do this, your transferring company will automatically withhold 20 percent prior to moving the funds, which you may or may not get back. Plus, you'll have 60 days to get those funds into a new plan. Failing to do so will cause the entire amount to be taxable and subject to the 10-percent penalty if under age 59 ½.

The next choice is a trustee-to-trustee rollover to the plan you have at your new job. This is permitted as a general rule of thumb across all plans with a few limitations. Before doing this however review your new plan. Know what the fees are, know your investment choices (good/bad, too few, proprietary, etc.), and vesting schedules on matched money (if there is a match).

Finally, you can choose to do a trustee-to-trustee rollover to an IRA. By having the companies move the funds directly between them, you avoid unnecessary taxes, penalties and mistakes, You also will probably have a much broader choice of investment options, you'll have more control and continue to have the tax protection of deferred growth and compounding interest. There may be reasons not to do this as well. One such reason may be if you're being sued or think you may be sued. You generally have better creditor protection in an Employee Retirement Income Security Act plan rather than an IRA.

I tried to make this a simple walk-thru, but in real life there are many things to consider and many pitfalls to avoid. So as I mentioned earlier, if you are planning to do this — please please please — speak with an expert and let him or her guide you through the process. It may cost a little to do that, but it could save you tons if you make even the smallest of mistakes.

Thanks to all the readers for making this a fun and exciting year. I truly hope that we've been able to help you and make your financial decisions easier to make. As always please feel to reach out to us if you have any questions, concerns or topics you'd like us to discuss. Happy holidays to you and your family.

A resident of Bedminster, Thomas J. O'Connell is the president of Parsippany-based International Financial Advisory Group, Inc., which offers a variety of retirement planning, wealth management and insurance services. O'Connell is part of the local edition of the nationally syndicated radio show "Your Game Plan to Retirement," which airs 6 p.m. Mondays on WCTC AM Radio 1450 and 7:30 p.m. Thursdays on

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