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The 'Not-So' New Job Blues: Three Options for Managing Old 401(k)s

The world of work has changed, and staying with one company throughout a career is becoming increasingly rare.

But amidst packing and moving chores and getting used to conversations around a new water cooler, there's an important task to attend to: Taking care of your 401(k) retirement account.

Changing jobs means you will have multiple 401(k) retirement accounts with various employers over a work lifetime. So, the question becomes, what should employees do with their old 401(k)s?

One option is to cash out the account. This is never a preferred option, since the funds are taxable income for the year the funds are withdrawn. Also, if you are under the age of 59 1/2, you will pay an early withdrawal penalty of 10 percent.

A second option is to roll over the funds to the new employer's 401(k) plan if the new company accepts rollovers. This is a tax-free transaction and consolidates accounts to simplify your investment portfolio.

A third option is to roll over the funds to an Individual Retirement Account (IRA), and either work with a professional financial advisor, or manage the funds yourself.

There are distinct advantages and disadvantages to the second and third options listed above:

Transferring retirement funds to your current employer helps you keep management fees lower on average, inside 401(k) plans. The Department of Labor now requires disclosure of management fees so you know exactly what you pay each year.

The downside of this option could be a limitation on investment choices.

Another consideration is if your 401(k) is in company stock only. There are risks to investing in only one stock. It makes your nest egg dependent on the performance of one asset.

The last option is to consolidate your retirement accounts into one 401(k)—and for high income earners—invest in a Roth IRA. This concept is known as the "backdoor" Roth IRA.

If you have all of your retirement assets in a single 401(k) plan, you are able to make a contribution to Non-Deductible IRA and immediately convert that account to a Roth IRA. There are limitations and you need to consult your financial advisor and tax accountant for more information.

The third advantage of rolling the funds into an IRA allows you to begin working with a financial advisor. This is helpful for people who are looking for holistic financial planning.

Financial advisors help clients focus on setting financial goals that can include short term, intermediate and long-term goals. These goals can include anything from providing funds for an annual vacation, to paying for children’s college educations, to planning for retirement. A reputable financial advisor can help you reach your stretch goals.

If you use a financial advisor, we believe you should select a Certified Financial Planner®. These advisors are trained to provide objective planning and strive to invest funds in the client's best financial interest as a fiduciary.

It can be a tough decision to decide what to do with 401(k) funds and there are many options to be considered. But researching your options and acting now will allow you to make decisions you will be happy with far into the future.

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Tom Keller is a Certified Financial Planner with Kehoe Financial Advisors of Cincinnati, a 33-year-old financial advising and services practice. Kehoe assists clients in developing and implementing financial strategies to help meet retirement, estate and business planning objectives, business continuation and succession planning. For more information, go to www.kehoe-financial.com or call (513) 481-8555.