

What to do with that old 401(k)

By Karin Price Mueller/NJMoneyHelp.com May 25, 2016 3:00 PM



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Q. I will be changing jobs and I have a small 401(k). Should I leave it there or move it to my new employer's plan?

— Working

A. You have several options for your 401(k).

It will partly depend on the balance in the account.

If the account has less than \$1,000, your employer is permitted to cash out the account when you leave the company, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

She said you should be sure to fill out the necessary paperwork to roll the account over and avoid having it **cash**ed out prior to your departure.

If the balance of your account is large enough — typically at least \$5,000 — you may be able to leave the 401(k) with your old company, she said.

But there are two other good options to consider.

Aznar said you can either **roll the balance** into your new company's 401(k) plan and the other is to **roll the 401(k)** into an IRA rollover with the custodian of your choosing.

You also have one bad option: Take the money and run. That choice would mean the **money is taxed** at ordinary income tax rates and would probably be subject to penalties.

Not a good choice, Aznar said.

She said if you think that the investment options in your new company's 401(k) plans are good and the cost structure of the new plan is competitive, that would be the simplest and most efficient approach.



If, however, you do not think that the investment options in the new 401(k) plan are very good and/or you believe that the underlying expenses in the new plan are high, it would be worth considering doing a trustee-to-trustee transfer of your old 401(k) plan into an **IRA** rollover, Aznar said.

"When you opt for a trustee-to-trustee transfer, there are no income tax consequences associated with making the move and you are able to choose any investment options available to you at the new custodian," she said. "This option would give you the most flexibility from an investment perspective."

*Karin Price Mueller writes the Bamboozled column for The Star-Ledger and she's the founder of **NJMoneyHelp.com**. [Click here](#) to sign up for the NJMoneyHelp.com weekly e-newsletter. Like NJMoneyHelp.com **on Facebook** and **follow it on Twitter**.*

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