WHEN YOU LEAVE YOUR JOB

Making a decision regarding the assets in your former employer’s retirement plan can have a significant impact on your long-term goals.

If you have money in an employer-sponsored retirement plan and have changed or are about to change jobs—or you are retiring—now may be the right time to assess what you plan to do with the assets. Outlined below are the four main options to choose from. The right choice for you depends in large part on your personal circumstances and your long-term financial goals. For example, rolling the assets into your new employer-sponsored retirement plan (if applicable) may be best if you’re thinking of retiring early—employees who leave the workforce at age 55 or older typically can make penalty-free withdrawals from their 401(k) accounts (distributions are subject to immediate taxation). In contrast, if you are younger than age 55 and choose to withdraw the assets from your account, the distribution would be subject to taxes and penalties.

Keep in mind that tax-advantaged growth potential may be the greatest benefit of an employer-sponsored retirement plan or an IRA. Preserving the tax benefits of your retirement account when you change jobs may substantially improve your ability to build wealth over the long term.

Consider the following four options as you think about how to handle savings in a former employer’s plan.

1. Roll over the assets into an IRA—Traditional or Roth
2. Roll over the assets into your new employer’s plan
3. Leave the assets in your former employer’s plan
4. Cash out the account
OPTION 1:
Roll over the assets into an IRA—Traditional or Roth

ADVANTAGES
• Maintains the tax-advantaged status of your investments.
• Allows for the consolidation of retirement plan assets.
• Usually offers access to a wider range of investment options (as compared with keeping the assets in an employer-sponsored plan), making it easier to create an appropriate investment portfolio.
• Gives the option of taking penalty-free withdrawals under certain circumstances.
• Allows investors to make withdrawals at any time.

CONSIDERATIONS
• Does not offer loan provisions.

Traditional IRA
Rolling the assets into a Traditional IRA ensures that your retirement savings maintain their tax-deferred status. It also may other benefits above and beyond your current or former employer’s plan. Additionally, you’ll have more flexibility in managing your assets. IRAs typically offer thousands of investment options, including mutual funds, exchange-traded funds, and individual stocks and bonds.

Whether your money is in a workplace retirement plan or a Traditional IRA, leaving it untouched until retirement may give you the best chance to capitalize on the potential for tax-deferred growth. Among retirement plans, IRAs typically offer the easiest access to your money, should you need it. Workplace plans in which you currently participate may prohibit withdrawals except in the event of financial hardships or severe disability. Conversely, you can make Traditional IRA withdrawals at any time. However, you’ll pay income taxes on any taxable portion of the distribution, and, if you are under age 59½, you also may incur a 10% early withdrawal penalty tax just as you would if you withdrew funds from your workplace account. (The early withdrawal penalty from the IRA may not be assessed if you become permanently disabled or you use the money for certain medical expenses, higher education costs, or a first-time home purchase.)

Once you choose your IRA provider, they can walk you through the process of rolling over your assets. In many cases they can take care of multiple steps for you. Before you make the final
decision to roll over your assets, compare any fees charged by your employer plan with those of a new Traditional IRA or Roth IRA.

**Roth IRA**

For years, Roth IRA rollovers were out of reach if your annual income was more than $100,000. This provision was changed in 2010, and now you can roll over assets in a 401(k) plan to a Roth IRA regardless of how much money you make.

When you roll assets into a Traditional IRA, you can defer taxes until you make withdrawals, at which time the money withdrawn is taxed as income. With a Roth IRA rollover, on the other hand, you will be responsible for paying current income tax on pretax amounts and any earnings you move from a workplace plan to the Roth IRA. However, withdrawals from a Roth IRA may not be taxed if certain conditions are met. In essence, a Roth IRA rollover allows you to pay tax on your savings now in exchange for tax-free withdrawal potential in the future.

The decision about whether a Roth IRA is a good option for the money you have in your former employer’s plan is complex. It depends on several variables, including your current tax bracket, your likely tax bracket when you begin to take withdrawals, your time horizon, whether you intend to pass along an inheritance, and your comfort level with paying taxes on the taxable amount of the assets you roll over from the plan.

You might opt to roll over to a Roth IRA in order to spread your savings among accounts that are taxed differently. Such tax diversification may help you prepare for any future uncertainty in the tax code. A financial advisor can help you with your decision.

If you conclude that a Roth IRA is right for you, roll the assets from your former employer’s plan into the Roth IRA in the same way you would have with a Traditional IRA. Bear in mind that while the income limits have been lifted on Roth IRA rollovers, you still must fall under certain income limits to make additional contributions to a Roth IRA.

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**Next Steps**

- Open a Traditional or Roth IRA, and move the assets directly from your previous employer’s retirement plan to the IRA. Your new IRA provider should be able to help you through the process and may be able to help coordinate the process for you.

- Revisit your asset allocation to ensure that your portfolio is aligned with your goals and invest appropriately.
Moving your savings from a previous employer’s plan to your new employer’s plan will allow you to continue taking advantage of the tax-deferred growth potential offered by workplace retirement plans and may provide better investment options than your current plan.

Keeping a workplace account may be appealing under certain circumstances. For instance, such plans typically allow for penalty-free withdrawals if you leave the workforce in the year you reach age 55 or later (distributions are subject to immediate taxation). Some workplace plans also allow participants to take loans without paying current tax or penalty, whereas IRAs don’t allow loans. That said, loans from employers’ plans have significant restrictions. They must be paid back with interest within five years (except for principal residence loans) or you will owe taxes and possibly a 10% penalty on the outstanding loan balance.

**OPTION 2:**
**Roll over assets into your new employer’s plan**

**ADVANTAGES**
- Maintains the tax-advantaged status of your investments.
- May permit loans.*
- Generally allows for penalty-free withdrawals if you separate from service in the year you reach age 55 or older (although your distribution is still subject to income taxes).

**CONSIDERATIONS**
- Limits investment options to those in the new plan.
- Limits your access to withdrawals.
- May involve a waiting period prior to moving assets from a former employer’s plan.*
To decide whether to move your assets from your old plan to your new one, carefully evaluate all of your distribution options. Be certain that the new plan accepts rollovers—and ask if there is a waiting period before assets can be rolled into it. Also ask about the new plan’s policies for loans and hardship withdrawals, and compare any fees charged by the new plan with those charged by your old plan.

Rolling over assets into your new plan should be relatively simple. Contact your new plan sponsor, who can guide you through the process.

*Depends on employer plan provisions.

***Next Steps***

- Determine if the new plan accepts rollovers.
- Familiarize yourself with the new plan options and rules for moving money.
- Decide whether the new plan meets your portfolio diversification needs.
- Contact your new plan sponsor to roll over assets from your previous employer’s retirement plan.

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**OPTION 3:**

**Leave the assets in your former employer’s plan**

**ADVANTAGES**

- Offers familiar investment options.
- Maintains the tax-deferred status of your investments.
- Generally allows for penalty-free withdrawals if you separate from service in the year you reach age 55 or older (although your distribution is still subject to income taxes).

**CONSIDERATIONS**

- May have a minimum balance requirement to remain in plan. Some plans will only continue to maintain accounts of $5,000 or more.*
- Continues plan withdrawal provisions.
You’ll continue to enjoy tax-deferred growth potential in your old employer’s plan, as well as the other benefits offered by workplace plans. But there may be some drawbacks: For instance, you may be required to maintain a minimum account balance.

Choosing what to do with assets from an old workplace plan takes some thought. But remember that having several accounts spread among previous and current employers may make it more difficult to keep your asset allocation on track. You may find it easier and more convenient to consolidate your retirement savings into one or two accounts, such as an IRA and/or a new workplace retirement plan.

*Depends on employer plan provisions.

**Next Steps**

- Review the plan restrictions for former employees.
- Determine if the plan’s investment options are a good fit for your portfolio.

### OPTION 4:

**Cash out the account**

**ADVANTAGES**

- Provides immediate access to your retirement plan assets.

**CONSIDERATIONS**

- Removes the potential for continued tax-deferred or tax-free growth of your assets.
- Mandatory 20% withholding on the distribution. You may be liable for more when you file your taxes, if your income tax rate is higher than 20%.
- May be subject to a 10% early withdrawal penalty if you are under age 59½ (some exceptions apply).
When you change jobs, you have the option of withdrawing the assets from your retirement plan in cash. However, doing so can cost you significantly in lost savings. Your account is subject to a mandatory 20% federal withholding, and generally, if you’re younger than age 59½, you’ll also pay a 10% early withdrawal penalty (with certain exceptions). For example, if you change jobs at age 45 and decide to cash out the $50,000 you hold in your previous employer’s 401(k), you’ll pay $17,500 in taxes and penalties, assuming you’re in the 25% tax bracket. That’s an enormous cost for access to $32,500 in after-tax money. Cashing out may cost even more if the withdrawal increases your taxable income enough to push you into a higher tax bracket. Most importantly, you’re giving up the powerful potential for compounded growth you would have by continuing to invest the assets in a tax-deferred account.

Cashing out of your plan may seem tempting if you have significant debt. But the resulting combination of taxes, penalties, and lost tax-deferred growth potential could make your situation even worse. Instead, review your finances for other ways to generate the money you need to pay down your liabilities. You may be able to trim some areas of your monthly budget to free up extra cash.

Next Steps

- Consider the importance of your retirement assets to your long-term financial plan.
- Explore alternatives to fund any immediate expenses.

Call 1-800-401-1788 to request a prospectus or summary prospectus; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

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