Changing Jobs

Investing for your retirement

Options for your retirement investment

We live in a rapidly changing world. Current events, new technologies, economic changes and more all affect our personal and work lives. In keeping with this rapid pace of change, one in five of us will change jobs this year.

Many who change jobs may fail to adequately protect a retirement investment that could have been years in the making. Investments in employer retirement plans provide the opportunity to save, pre-tax, for retirement without paying current income taxes on investment earnings. These features – pretax contributions and tax-deferred growth – offer the potential for long-term growth of capital.

If it's your turn to change jobs, it may be wise not to treat that investment as a windfall. Doing so could be a big mistake.

First, when you withdraw a pretax investment as a lump sum, you're required to pay all those deferred taxes up front. That's current income taxes on the entire amount of the investment, plus its earnings.

Further, if you withdraw before you reach age 59½, you may be subject to an additional 10 percent IRS penalty tax. To help offset this, 20 percent of your investment would be automatically withheld, but you'd pay the remainder of the bill with your next income tax filing. That could be substantial.

Withdrawn investment:	$100,000
20 percent withholding	–$20,000
Leaves	$80,000
Taxes at 32 percent	$32,000
Premature withdrawal penalty	$10,000
Total, taxes and penalties	$42,000
At tax time, you owe	$42,000
Less 20 percent already withheld	–$20,000
You pay, out of pocket	$22,000
Net value of your $100,000	$58,000

At the 32 percent tax bracket, a $100,000 investment automatically shrinks to only $58,000 when withdrawn pre-retirement (before age 59½) from an employer's plan. At higher tax brackets, the shrinkage is even more dramatic. What's more, that $100,000 is no longer invested for your ultimate goal: your financial needs in retirement.

Exploring your options

Your retirement investment doesn't have to suffer just because you change jobs. Explore your options based on your financial goals and preferences.

Leaving the money where it is

If allowed by your plan, you may simply leave your investment in your employer's plan subject to the Internal Revenue Service minimum distribution rules. You won't be able to contribute once you've stopped working there, but your investment earnings will be tax-deferred. You'll still receive the same reports as before you left, and you'll still be able to allocate your investment among available options, as outlined in the plan. Your contributions and any earnings on those contributions always belong to you, even if you change jobs.*

Rolling the money into an IRA

Some examples of why you may choose to roll over to an IRA, may be because your new employer's plan does not accept rollovers or because of the services (e.g., advisory services) and flexible distribution options that are available in an IRA.

Investing in another plan

Your next employer may offer a similar plan and may allow rollovers from previous plans. If this option is available to you, it may allow you to streamline your retirement investments into one account – and to continue making contributions into the new plan. You may wish to consider comparing your options for differences in cost, benefits, charges and other important features before rolling over assets from one plan to another. You may want to consult your legal or tax advisors as well.

Talk to your financial professional for exploring your available options to keep your retirement savings invested for future growth potential.

* If your employer offered a matching contribution, please refer to their vesting schedule to determine what percentage you are entitled to based on your years of service.

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