As workers retire or change jobs, they often struggle with what to do with their old employer’s 401(k) or similar defined-contribution retirement plan.

Cashing in the account is never the best option—the income taxes, potential penalties, and loss of tax-deferred growth are all significant reasons why this is no financial answer. But what is the best option? Should investors keep their money in the old plan, roll it into a new employer’s defined-contribution plan if available, or roll it over into an individual retirement account? The answer to this question is as varied as the investors themselves and depends completely on each investor’s unique financial situation.

**Staying with an Old Employer’s Plan**

According to the Employee Benefits Research Institute, one in three workers leave their money in an old employer’s 401(k) plan. While this decision is often made simply to avoid rollover paperwork or any real decision at all, it does provide some advantages for the average investor. These include:

- **Early Withdrawals**—if you leave work due to termination or retirement, you can usually begin withdrawing from a 401(k) as early as age 55 without the 10 percent early withdrawal penalty. With rare exceptions, you will have to wait until age 59 1/2 for penalty-free withdrawals from an IRA.
- **The Stability of Mutual Funds**—Approximately two-thirds of all 401(k) plans offer stable-value mutual funds, which are not offered in most IRAs. These funds appeal to conservative investors because they tend to offer healthier yields than money markets but with the same stable principal.
- **Limited Investment Choices**—While this may sound hard to believe, limited options can actually be an advantage for some investors. Some studies show that investors who make excessive trades hurt their personal returns more than those who don’t trade as much.

**Rolling Funds into an IRA**

One of the primary reasons so many people are drawn to IRAs is the myriad of investment choices, particularly if the choices are superior to those available in an old or new employer’s plan. With an IRA, you also have the added advantage of never having to worry about future investment options changing, as is common in employers’ plans.

In addition, workers who change jobs frequently may find it easier to manage a single IRA account than multiple employer plan accounts. Or, you might consolidate into your current employer’s plan if it’s good quality.

Another major benefit for the IRA option is the potential for significant tax savings. With an IRA, you can designate a younger non-spousal beneficiary and “stretch out” the minimum withdrawals over that person’s lifetime. A 401(k) plan probably will insist that the account be immediately cashed out if the heir is not a spouse, resulting in a much larger tax bite and loss of further tax deferral.

With a rollover IRA, you may also want to consider converting to a Roth IRA if a conversion makes financial sense for you.
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