

# What to Do with Your 401(k) When You Leave Your Job



In your 20s and 30s, retirement can feel far off—maybe even easy to ignore. But taking a proactive approach early on can meaningfully shape your financial future and potentially give you more flexibility down the road.

If you're in the majority of employees, you likely have access to an employer-sponsored retirement plan, like a 401(k). At some point—whether you change jobs, retire or revisit your financial strategy—you may need (or choose) to move those assets into another retirement account. This process is known as a rollover.

To help you make an informed decision, here are the most common options, along with key considerations for each.

## Rollover Options

### 1. ROLL INTO A NEW 401(K)

If you are switching jobs and your new employer offers a 401(k), you can roll your assets directly into that plan.

**Pros:** The transfer will not generate any tax liabilities, and you will continue to defer taxes on any gains generated in the account. This may also be a good option if you prefer to have all your retirement assets in one consolidated vehicle.

**Cons:** When enrolling in a 401(k), your employer's plan dictates your investment choices. All plans are not created equal, so do your due diligence by reviewing the new plan's investment options, fees and enrollment period.

**Tip:** If there's a waiting period before you can enroll in your new employer's plan, you may be able to leave your assets in your previous plan temporarily. Keep in mind that you won't be able to make new contributions during that time. Also, be sure to review whether your new employer offers the benefit of contribution matching.

## 2. ROLL INTO AN INDIVIDUAL RETIREMENT ACCOUNT (IRA)

If you don't have access to a new 401(k), or you want more control over your investments, an IRA may be worth considering. IRAs are available through banks, brokerages and insurance providers.

**Pros:** The transfer will not generate any tax liabilities, and you will continue to defer taxes on any gains generated in the account. IRAs also offer increased freedom and flexibility in making investment decisions.

**Cons:** If you have access to a new 401(k) plan you may miss out on the option to take a loan from your account, a feature that many employer-sponsored plans provide. Also, if you participate in your new employer's plan, you may find it a bit more cumbersome to track two accounts rather than the one that would have resulted from rolling over your assets into your new employer's plan.

**Tip:** The broader investment choices in an IRA can also make decisions more complex. A financial advisor can help align your investment strategy with your goals, timeline and risk tolerance.

## 3. ROLL INTO A ROTH IRA

A Roth IRA is a retirement savings vehicle that differs from most retirement savings accounts in that contributions are made with after-tax dollars, and withdrawals are tax exempt, assuming certain requirements are met. The inverse is generally true for the already-mentioned traditional IRAs: Qualified contributions are tax deductible, but withdrawals count toward taxable income.

**Pros:** Withdrawals after the age of 73 (if born 1951-1959) or age 75 (if born 1960 or later), are not mandatory, which they are for traditional IRAs. Also, penalty-free withdrawals can be made under a wider set of circumstances, including if they come from contributions you have made rather than earnings on your contributions.

**Cons:** You will have to pay taxes on the rollover amount upon conversion to compensate for taxes that have already been deferred. Also, the same potential cons apply as if you were to choose to roll over into a traditional IRA: if relevant, missing out on the option to take a loan, and being a bit more cumbersome to track two accounts rather than one.

**Tip:** If you expect to be in a higher tax bracket later in life, a Roth IRA may be appealing. That said, choosing between account types often depends on multiple factors and sometimes a combination of strategies makes sense. A financial advisor can help you evaluate your options.

#### 4. OPT FOR AN INDIRECT ROLLOVER

With an indirect rollover, you withdraw funds from your 401(k) and deposit them into another retirement account yourself. Your employer will issue a check for your balance, typically withholding 20% for taxes. If you complete the full rollover within 60-day time limit, any mandatory tax withholding will be returned to you when you file your annual tax return.<sup>1</sup>

**Pros:** An indirect rollover can serve the purpose of a short-term loan.

**Cons:** Early withdrawal penalties will apply if the loan is not paid back within a 60-day period, and pretax contributions will be considered taxable.

**Tip:** This approach can be risky and is generally used only when other options aren't available. If not executed properly, you may face significant financial consequences, like owing both income taxes and an early withdrawal penalty.

#### Last Resort: Cashing Out

You can choose to cash out your 401(k), receiving the balance (minus taxes and withholdings) directly. However, this option is typically discouraged unless there's an urgent need for cash and no viable alternatives.

You'll likely owe income taxes and may also face an early withdrawal penalty, which can significantly reduce your savings.

### YOU DON'T HAVE TO GO IT ALONE

Saving and investing are important steps, but deciding how to manage retirement accounts and investment choices can feel overwhelming.

Working with someone you trust can make a meaningful difference. Whether it's a financial advisor or another knowledgeable resource, guidance can help you make more confident, informed decisions.



## FOOTNOTES

<sup>1</sup> Kagan, J. (2025, May 27). Indirect rollover: definition, rules, and requirements. Investopedia. <https://www.investopedia.com/terms/i/indirect-rollover.asp>



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