Changing Jobs? Reach for a Rollover

When it comes to your retirement savings account, you have options when you change jobs. You can roll over into an IRA or your new employer's plan (subject to the provisions of the plan); stay in your former employer's plan, if allowed; take a cash distribution; or elect a combination of options.

You may be surprised to learn that nearly 70 percent of plan participants take a cash distribution, according to Financial Industry Regulatory Authority (FINRA), a self-regulatory securities oversight organization. Bad news. Today's windfall could mean tomorrow's retirement shortfall. So don't crack your nest egg prematurely.

Rollovers rule
A rollover into an IRA allows your pretax contributions to continue to compound tax-deferred until you withdraw them at a later date. You also avoid a 20 percent income tax withholding. And if you're younger than 59 ½, a rollover allows you to avoid paying a 10 percent early-withdrawal penalty on top of the taxes you'd owe at your regular income tax rate. Finally, a rollover allows you to broaden your investing horizons because you are no longer limited to the investment options in your employer's savings plan.

Keep up the compounding
There can be money-making potential in a rollover, too. In fact, the money gained by taking a withdrawal may not compare to the amount of money you could earn over the years if you stay invested. For example, a $10,000 check in your pocket today could be worth over $100,000 in an IRA returning 8% for 30 years.

Don't be greedy
Do you really want to short-circuit your long-term financial plan by spending your savings? Before you do, remember why you started saving in the first place. Think about how much tax-deferred money you might lose. Ask yourself if it's worth it — then look into your rollover options.

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