

Retirement Plan Portability



What is Portability?

- The ability to take retirement savings with you when you leave a job.
- Why it matters: prevents automatic cash-outs, preserves tax advantages, and keeps retirement goals on track.

Options When Leaving a Job

- Leave the money in the former employer's plan (if allowed)
 - ✓ Pros: Institutional pricing
 - ✗ Cons: Can't contribute, limited investment changes
- Roll over to new employer's plan (if allowed)
 - ✓ Pros: keep everything in one account, easier tracking, ongoing contributions
- Roll over to an IRA
 - ✓ Pros: Broad investment choices, flexibility
 - ✗ Cons: Retail fees, loss of some ERISA protections
- Cash out
 - ✗ Cons: Taxes, possible penalties, loss of long-term compounding

Impact of Cashing Out

- Taxes: Ordinary income tax + possible 10% penalty if under 59 1/2.

How to Roll Over

- Request a direct rollover.
- Avoid taking possession of a check payable directly to you. Whenever possible, arrange for the check to be sent directly to your new retirement plan or IRA custodian to avoid mandatory tax withholding and the risk of missing the 60-day rollover deadline.
- Verify fees, investment options, and services in the new plan/IRA.

Portability Best Practices

- Keep accounts consolidated when possible to simplify tracking.
- Compare fees and services before moving money.
- Understand vesting rules (some employer contributions may not be portable if you leave early).
- Keep beneficiary designations updated.

Sources:

<https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/publications/what-you-should-know-about-your-retirement-plan#chapter-5>

<https://www.irs.gov/retirement-plans/plan-participant-employee/rollovers-of-retirement-plan-and-ira-distributions>

<https://www.aarp.org/money/retirement/what-to-do-401k-changing-jobs/>

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