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MOVED ON FROM YOUR JOB? HERE'S WHAT TO DO WITH YOUR OLD 401(K).

By: Nick Fortuna - January 31, 2022

Editor's note: Barron's Retirement readers have sent along many questions about their savings, investments, and strategies over the past few months as everything from the record-breaking market rally to inflation to the pandemic itself has changed their planning landscape. Millions of Americans have retired early, before some had fully mapped out what retirement looks like, let alone a retirement plan. Many families have been burdened by illness and death since the pandemic, and they're navigating estate issues they had never imagined.

Have a question about saving for retirement? Have a question about your personal financial situation? Whatever the question, Barron's Retirement can try to help. Email retirement@barrons.com, and we might look to financial professionals for answers.

Q: What should I do with old retirement accounts?

In general, savers should consolidate their 401(k) and similar accounts from previous employers by rolling them over into an individual retirement account, says Gregory W. Lawrence, founder of retirement-planning firm Lawrence Legacy Group. An IRA may offer more investment options and lower fees than an employer-sponsored 401(k) plan, he says.

Unless your current or previous employer's 401(k) plan offers a clear advantage, such as lower fees or access to better investment vehicles, then consolidating old accounts into an IRA likely is the best choice, Lawrence says. Consolidating accounts makes it easier to manage investments and simplifies estate planning, he adds. A rollover also gives investors a chance to update their list of beneficiaries.

"Usually, old accounts are poorly managed or ignored," Lawrence says. "Combine your accounts to make life more convenient."

Rolling over old accounts also gives workers nearing retirement an opportunity to adjust their investment strategy, says Samuel Eberts, advisor at retirement-planning firm Dugan Brown. In the new IRA, for example, they could choose conservative investments such as bond funds to guard against market volatility, and when they retire, they can tap into this money first. Meanwhile, he says, their contributions to their current employer's 401(k) plan can skew more toward growth-oriented investment vehicles.

Another option: Investors might want to meet with an accountant to determine if a Roth IRA conversion is preferable to a traditional IRA rollover, Eberts says.

When you convert money from an old 401(k) or traditional IRA to a Roth IRA, that money is taxed as regular income for that year—an immediate tax hit. However, the money in the Roth IRA subsequently grows tax-free. Contributions to a Roth IRA can be withdrawn at any time because they were made with after-tax money. And after age 59½, savers may withdraw investment gains tax-free, as long as the Roth IRA is at least five years old.

A Roth IRA conversion might be ideal if you're expecting to earn less money this year than normal and will be in a lower income tax bracket, Eberts said. An accountant can determine exactly how much an investor can convert to a Roth IRA without being bumped into a higher bracket, he adds. Funds not converted can remain in a traditional IRA.

Tax rates are likely to increase in the future, so paying taxes now through a Roth IRA conversion likely makes sense, as long as you stay within the same income tax bracket, Eberts says: "If you can take advantage of a low-income year, then that absolutely could be a good idea."

Gregory Lawrence, CFP®, founder of Lawrence Legacy Group LLC., is an expert in protecting his client's wealth. Specializing in Total Financial Planning, Gregory coordinates with other professionals to safeguard against loss risk in an ever-changing stock market. Gregory is a Federal Benefits Consultant helping Federal Employees to coordinate their benefits and investments to plan and maximize their retirement.

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