



## What Should You Do With Old Retirement Accounts?



**You likely have at least one old retirement account if you've ever changed employers. These accounts stay exactly as you left them unless you take action. Just like that unruly junk drawer in your kitchen, having multiple retirement accounts can get a little messy and unnecessarily complicated. In this document, we'll explain what you should do with your old retirement accounts, including all your options and the tax implications of each choice.**

## **You can cash it out—and pay the penalty.**

When you first see your old 401(k) balance, you may feel tempted to take the cash. It might feel like a safety net you can use to pay off debt, take a vacation, or cover a few months of expenses if you're currently unemployed.

A 401(k) account is tax-deferred, meaning that you don't pay income tax until you withdraw funds. Therefore, you will owe taxes on any amount that you withdraw, and that amount may push you into a higher tax bracket. Additionally, if you're under age 59 ½, you'll face a 10% penalty for the early withdrawal.

Regardless of the taxes and penalties, the main downside is the effect on your retirement. You'll lose the benefit of tax-deferred growth and having a nest egg for later years.

Still, no one is immune to being caught in an emergency situation. If you're facing a true financial hardship such as significant medical expenses and unemployment, a withdrawal from your retirement account can be the life raft you need. Also, some situations are eligible for penalty exceptions by the IRS. If you truly need to choose this option, only take what you need and replace the funds ASAP.



## You can roll old retirement accounts into new ones.

If your new employer offers a retirement plan that accepts rollovers, this may be your best choice. Request a rollover from your old account to your new account. Usually, the plan administrator sends a check or bank transfer directly to the new plan. You won't pay any taxes or penalties if you choose this option. Best of all, you'll only have one account to manage rather than two.

## You can roll it into an IRA.

When you're unemployed, self-employed, or your new employer doesn't offer a retirement plan that accepts rollovers, you have another option: roll the money into an IRA.

An IRA is an Individual Retirement Account, and you can open one yourself at nearly any large financial institution. Your personal bank probably has an IRA account option.

IRAs are a little different from 401(k) plans, and there are two types.

### Traditional IRA

Traditional IRAs are tax-deferred, so you won't pay taxes if you roll your old 401(k) into one of these accounts. You will pay taxes on money you withdraw from the account and there are no early withdraw penalty if you're either over age 59 ½ or face specific allowed situations.

With a traditional IRA, you have more control over your investment. You can invest your money in stocks, bonds, mutual funds, ETFs, precious metals, real estate, CDs, and several other options. Most people appreciate IRAs because they own the account. It's not sponsored through an employer, so you have easy access and much better control.



## Roth IRA

If you choose to roll the funds into a Roth IRA, you'll have to pay taxes on the rollover amount. However, you won't pay taxes when you withdraw the funds during retirement.

If you expect to be in a higher tax bracket after retiring, the Roth IRA option may make more sense than a traditional IRA because you'll pay less in taxes overall. The investment options and other benefits of a Roth IRA are the same as a traditional IRA.

## You can leave it where it is.

Even with the available options, you aren't required to do anything with your old retirement accounts. It all comes down to your personal retirement goals and what you want to work on right now. If you're ready to organize your retirement accounts and take better control over your money, choose one of the options above. If you are satisfied with your current investment options or need more time to decide, leave the money where it is. Don't forget to keep an eye on your investments in case you need to make adjustments down the road.



# Final Thoughts

It can be overwhelming to make sense of your retirement accounts and other investments. Please let us know if you need help with your retirement accounts and estate planning. We can discuss your options and provide expert advice based on your lifestyle, tax bracket, and other considerations. We're always here to help.





## About Heard, McElroy & Vestal

In 1946, S. Berton Heard, Charles McElroy and Charles Vestal founded Heard, McElroy & Vestal, LLC in Shreveport, Louisiana. Together, this trio of professionals established the firm as a pillar of trust, integrity and competence, with the mission to create solutions and provide opportunities for our clients, our people, and our communities. HMV is one of the largest public accounting and consulting firms in Northwest Louisiana, servicing our clients throughout the states of Louisiana, Arkansas, Texas, Mississippi, Oklahoma and Tennessee from offices in Shreveport and Monroe. Our firm is comprised of over one hundred (100) employees: Partners, Of Counsel Partners, Senior Managers, Managers, additional Professional Staff and Administrative Staff. Our Professional Staff includes more than fifty (50) certified public accountants who obtain additional certifications which are Accredited in Business Valuation (ABV), Certified Fraud Examiners (CFE), Not-for-Profit Certificate holders, Certified Valuation Analysts (CVA), Personal Financial Specialists (PFS), and Certified Mineral Managers (CMM). Our team of professionals brings together many years and diversification of experience, providing a network of knowledge and resources and allowing for industry and niche specialization. Not one CPA can offer the range and quality of services a firm of our size is able to provide, while remaining small enough to deliver personalized service and attention to our clients with consistency on engagements. HMV's strategic associations include Align Mineral Management, LLC, Business Valuation Consultants, LLC and HMV Wealth Advisors, LLC.



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