

How To Rollover Your 401(k)

By [Miriam Caldwell](#), About.com

If you are changing jobs you need to decide what you are going to do with your 401(k). This is an important decision, and you should make sure that you are making the right decision. If your 401(k) balance is less than \$1000.00, then your employer will most likely just mail you a check in a few months. If you have \$1000.01 to \$5000.00 your employer can roll into an IRA for you. This happens when the company no longer wants you to be part of the 401(k) plan. Generally if you have more than \$5000.00 you can leave your 401(k) where it is. You may also have the option of rolling your old 401(k) into your new one.

Difficulty: Easy

Time Required: A few hours

Here's How:

1. First you need to consider your options. You want to roll it into a traditional IRA so that you do not take the tax penalty associated with a Roth IRA. You have options on where you choose to open your IRA account. You can open it through a bank, which may put it into CDs (certificates of deposit) or you can use an investment house and put into an IRA that uses mutual funds to grow your money. Banks may offer investment services in which you can choose a mutual fund IRA, but that money is not insured through the FDIC. Choosing mutual funds is wiser in your twenties because the rate of return is much better.
2. Next you need to choose which company you will want to invest your IRA with. If you already have a financial planner you may want to talk to her about it. If you do not have one, ask around and receive recommendations. You can also call and ask about specific terms, fees and conditions that different firms offer in conjunction with their IRA accounts. Take time to find a firm that you are comfortable using.
3. Third you need to choose the mutual fund type that you will invest in. Some firms may allow you to do a similar investment strategy that you had with your 401(k). You can invest most of it in more aggressive investments, and then the rest in safer, slower growing investments. You can talk to your advisor about how to do this. You can also talk to an account representative at your new firm.
4. Finally open the account and send the paperwork in so that your 401(k) will be rolled over. You need to have the firm that your IRA is

with fill out the paperwork and send it to your former employer requesting the amount be transferred to your new IRA. This is something that they should be able to help you with.

Tips:

1. Do not cash in your 401(k). This is foolish because your money will continue to grow if you leave it invested. You will also be charged an early withdrawal fee and taxes at the end of the year. The money you pull out will grow significantly if you leave it alone. It is like taking five dollars now and forfeiting \$100.00 in a few years.
2. If you do cash it out set aside the money for taxes now. You do not want a big tax bill that you are not prepared to pay for.
3. Be sure to rollover to a traditional IRA, so that you do not have to pay the taxes on withdrawal at the end of the year. If you do decide to rollover into a Roth IRA then you need to begin setting money aside to pay for the taxes on it at the end of the year.
4. Find a financial planner or consultant that you trust to talk about your mutual fund options if you find it confusing. This is your money and you should understand what you are investing it in and the risks associated with it.