Commonwealth Capital Management
PLAN WISELY, LIVE FREELY

What To Do With an Old 401(k)

When you leave a job, your 401(k) doesn't disappear. You have four main options. The best choice depends on fees, investment options, taxes, and your future plans.

Option 1

Leave the Money in the Old 401(k) | Do nothing. The account stays where it is

Pros:
✅ No paperwork ✅ No taxes or penalties ✅ Still grows tax-deferred ✅ Some employer plans have very low fees

Cons:
❌ Harder to keep track of multiple accounts ❌ Limited investment choices ❌ No new contributions allowed ❌ You can't borrow from it anymore ❌ No local advisor

Option 2

Roll It Into Your New Employer's 401(k) | Transfer the old 401(k) into a new plan

Pros:
✅ Keeps all retirement money in one place ✅ Still tax-deferred ✅ Easy to manage ✅ Maintains ability to do a future "backdoor Roth IRA" (important for higher earners)

Cons:
❌ Limited to new plan's investment options ❌ Some plans have higher fees ❌ No local advisor

Option 3

Roll It Into an IRA | Move the money to an IRA

Pros:
✅ Much wider investment choices ✅ Full control over investments ✅ Still tax-deferred
✅ Can be consolidated with other IRAs ✅ Dedicated advisor for guidance

Cons:
❌ Slightly more responsibility to manage ❌ Can complicate "backdoor Roth IRA" strategy due to pro-rata rule

Option 4

Cash It Out (Usually a Bad Idea) | Withdraw the money to your bank

What happens:
❌ You owe income tax on the full amount ❌ If you are under 59½, you'll owe an additional 10% penalty to the IRS ❌ You lose decades of compound growth
This option should only be used in true financial emergencies.

Have questions? That's what we're here for. Give us a call or book an appointment online:
ccmresource.com | 502.420.9912 | 10503 Timberwood Circle, Suite 205, Louisville KY 40223

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