New Job or Retirement? Take Control of Your 401(k)

When you leave your job or retire, you may have four options to manage funds in a work-based retirement plan, such as a 401(k), 403(b), or 457(b) plan.

Rollover to an IRA

The option that could give you the most control is to roll some or all of the funds to an IRA. IRAs typically offer a wider variety of investments than employer plans and enable you to consolidate retirement assets in a single account. Moreover, the IRA is yours to keep and control, regardless of your employment situation.

You can generally transfer funds without tax liability from a traditional employer account to a traditional IRA, or from a designated Roth employer account to a Roth IRA. Employer matching funds may be allocated to a traditional account even if the employer matches Roth contributions; if so, you might consider rolling funds to both a traditional and a Roth IRA.

You can convert traditional employer account funds to a Roth IRA, but you would owe income taxes (payable in the year of conversion) on the taxable portion of the conversion amount, generally the whole amount minus any after-tax contributions.

A rollover must be executed properly to preserve the tax-advantaged status of the funds. You can typically arrange a direct rollover (trustee-to-trustee transfer) by contacting the administrators of your employer plan and your IRA. The transfer may be electronic, or you could receive a check made out to the receiving IRA trustee, which you should mail to the appropriate address. There is no withholding, because the money is not considered as passing through your hands.

If you receive a check made out in your name, 20% of the distribution will generally be withheld for federal income taxes. In order to retain the tax-advantaged status, you must roll the distribution, including the 20% withheld, to the IRA within 60 days; otherwise, it will be considered a taxable distribution. You would have to pay the 20% withholding out of your own funds and wait for a potential tax refund of the withheld amount.

Rollover alternatives

If you don't want to transfer the funds to an IRA, you typically have three other options.

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Leave assets in former employer's plan. If the vested portion of the employer account is more than $7,000, you generally can keep it in the plan at least until you reach the plan's normal retirement age. This strategy might make sense if fees are low and you are satisfied with the investment options. Your plan may offer investments not available in an IRA, and the cost structure for plan investments might be more favorable than for those in an IRA. Keep in mind that you can no longer contribute to or borrow from the plan.

Transfer assets to a new work-based retirement plan. You might prefer this if you are moving to a new job. Again, your decision may depend on investment options, fees, and expenses, and whether the new plan allows you to transfer the assets.

Withdraw the money. Cashing out is generally unwise because you would pay current income taxes and lose out on potential tax-advantaged growth. For immediate cash, you could make a partial withdrawal and preserve the tax-advantaged status of the remaining funds through one of the other options, including a direct rollover.

Reasons to Roll

More than three out of five households who owned traditional IRAs in 2025 had executed at least one IRA rollover from a work-based retirement plan. These were the top reasons for the most recent rollover (multiple responses allowed).

Source: Investment Company Institute, 2026

Distributions from traditional IRAs and traditional employer-sponsored retirement plans, and the earnings portion of nonqualified distributions from Roth IRAs and designated Roth accounts, are taxed as ordinary income. Withdrawals prior to age 59½ (or age 55 for an employer plan if leaving the job) may be subject to a 10% penalty, with some exceptions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet a five-year holding requirement, and the distribution must take place after age 59½, unless another exception applies. A Roth IRA is not subject to required minimum distributions during the original owner's lifetime.

Generally, employer plan assets have unlimited protection from creditors under federal law, whereas IRA assets are protected in bankruptcy proceedings only (state laws vary).

This content has been reviewed by [FINRA](#).