

# Know Your Options

## by Steve Gilbertson

Chances are, at some point in your career, you will decide to leave your current employer for “greener pastures.” And when you do, you will be forced to deal with the decision about what to do with the retirement assets parked at your current employer. One option, obviously, is to take a distribution of these assets – “Hey, I earned this money, I might as well enjoy it.” However, before you take your distribution and spend it on that Caribbean cruise, consider the consequences of your actions:

When you take an early distribution on your retirement assets, not only are you taxed on these assets (as ordinary income), you also will generally pay a 10% penalty for early distribution. To illustrate, if you were in the 28% tax bracket and took a distribution of \$5,000, you would pay 28% plus an additional 10%, bringing the amount that you would receive on the distribution to only \$3,100. The greatest cost that you would have, however, would come from the fact that this retirement money would not be able to accumulate for its intended purpose, your retirement.

Consider a scenario in which you are 35 years old and plan to work for 30 more years. If instead of taking a distribution of these assets, you kept them invested and were able to achieve an 8% annual return, at age 65 this \$5,000 would be worth \$50,313.28!<sup>\*</sup> Suddenly, that cruise might not sound quite so appealing.

You might be wondering, if taking an early distribution isn't necessarily the appropriate action, what other options do I have? There are three primary options to consider:

- 1) **Move your assets to the retirement plan of your new company.** Money can be moved tax-free/penalty-free from your old employer to your new employer. This will help jump-start your new retirement account and will allow you to minimize costs by maintaining only one retirement account.
- 2) **Roll the assets into a rollover IRA.** Again, this will allow you to move your money tax-free/penalty-free. A major benefit of this option is that it will allow you to have maximum flexibility in how you invest your assets – you aren't limited by the plan choices offered by a particular employer-sponsored retirement plan. A disadvantage is that you cannot take a loan out against an IRA as you can with many 401(k) plans.
- 3) **Leave the assets where they are.** Many (though not all), retirement plans will allow you to continue to keep your assets invested in their plan even after you leave. Obviously, you can't make new contributions into the plan and you may pay excessive fees because you are maintaining multiple retirement accounts. Still, if you are happy with the investments in your current plan, this may be a viable option.

If you have questions about your options or would like to further discuss this topic, contact Steve Gilbertson at [sgilbertson@bryton.com](mailto:sgilbertson@bryton.com) or Dave Creighton, Jr. at

[dcreightonjr@bryton.com](mailto:dcreightonjr@bryton.com), or call them at 515.223.1601. The Bryton Companies offers Rollover IRAs for individuals seeking a vehicle in which to roll their retirement assets.

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\* The growth of \$5,000 to \$50,313.28 in this hypothetical scenario is achieved by compounding interest at an 8% annual rate. This example is hypothetical and does not represent the performance of a particular investment.

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