Multiple 401(k)s? You've Got Options

By Amy Merrick

Use this guide to consider which one might be best for you.

It's not uncommon to have several 401(k) retirement accounts. With each job change, there is often a new employer-sponsored retirement plan. But managing multiple 401(k) accounts can feel like a burden. Now is a good time of year—as you look at your finances and tax situation—to review those accounts and decide if you want to make changes. Here are some options to consider.

NORTHLIGHTIMAGES / E+ / GETTY IMAGES

Option 1: Keep it in the Plan

If the investment choices in a 401(k) account from a former employer are meeting your needs, you may decide to keep the money where it is. You can't contribute to the account, but the assets in it continue to be tax-deferred, which means you won't pay income tax on them until you receive a distribution.

You are, however, restricted to your former employer's investment choices. The company can change those options at any time, and you may not be able to transfer assets or investments within the plan. "You really have very limited control over what your investment options are going to be," says Karen Birr, an advanced retirement specialist at Thrivent.

In addition, if you retire, you will have to take required minimum distributions starting at age 70½, which will be subject to income tax.

Option 2: Move it to a New Employer Plan

If you are changing jobs, you may be able to move your old 401(k) account to a plan offered by your new employer. The assets will continue to be tax-deferred, and you can make new contributions.

Employees can defer up to $18,500 from their salary to a 401(k) in 2018 if they are under age 50, and $24,500 if they are age 50 or older.

Again, you will be limited to your employer's investment choices. If you retire, you will have to take required minimum distributions starting at age 70½, which will be subject to income tax.

Option 3: Take a Cash Distribution

If you want to use the money for an immediate need, you can choose a cash distribution from your employer plan. "This is probably the most expensive option," notes Gene Elder, a Thrivent financial representative in Loveland, Colorado.

If you take money out of a 401(k) account before age 59½, you face a 10 percent federal penalty (unless an exception applies), plus income taxes. You may be able to avoid the penalty if you leave your job at age 55 or older and don't take a distribution before then.

Option 4: Roll it Into a Traditional IRA

If you switch jobs, retire or your employer eliminates its plan, you may choose to roll your account into a traditional IRA.

"By consolidating," says Elder, "you simplify account management, recordkeeping and tax reporting."

With a traditional IRA, your assets will continue to grow tax-deferred. IRAs may have more investment flexibility, which can make them an especially good option if you are close to retirement, Elder says.

Keep in mind that contribution limits to a traditional (or a Roth) IRA are much lower than those for an employer plan.[1] In addition, if you want to take out money before age 59½, you may have to pay a 10 percent federal penalty on top of the income tax owed. You also will have to take required minimum distributions each year after age 70½.

Option 5: Roll it Into a Roth IRA

If you roll an employer plan into a Roth IRA, you will have to pay income taxes at the time you move the account. But that saves you from having to pay taxes later. "Once the Roth has been established for at least five years and you are age 59½, all of your growth will come out tax-free," Birr explains.

With a Roth, you can take out money you contributed without taxes or penalties. This feature can make it a good option for those who need funds for a first-time home purchase or college expenses. Unlike a traditional IRA, a Roth IRA does not require you to take a minimum distribution once you reach age 70½.

To contribute the maximum to a Roth IRA, your adjusted gross income must be less than $120,000 for individuals and $189,000 for married couples filing jointly. If your adjusted gross income reaches $135,000 for individuals and $199,000 for married couples filing jointly in 2018, you are no longer eligible to contribute to a Roth account.[2]

To make the best choice with your 401(k) accounts for your circumstances, talk with your financial representative and tax advisor. They can help you review the services, investment options, fees and expenses associated with both your current 401(k) accounts and any proposed retirement rollover accounts. ■

Amy Merrick teaches journalism at DePaul University in Chicago. Her work has appeared in *The Wall Street Journal*, *The New Yorker* online and the *Chicago Sun-Times*.

[1] If you or your spouse have earned income, you can contribute a total of $5,500 annually across all your IRA plans if you are under age 50, and $6,500 annually if you are 50 or older. (You can no longer contribute to a traditional IRA for the year you reach 70½, but you can still contribute to a Roth IRA.) You can also contribute to an employer 401(k) at the same time; however, for 2018, your adjusted gross income must be less than $63,000 for individuals and $101,000 for married couples filing jointly for your traditional IRA contribution to be fully deductible. If one spouse is participating in a 401(k) and the other is not, then that spouse can fully deduct their traditional IRA contribution if the joint adjusted gross income is under $189,000. If your adjusted gross income reaches $73,000 for individuals and $121,000 for married couples filing jointly, or $199,000 if one spouse is not participating in a 401(k), your traditional IRA contribution is no longer deductible.

[2] Some states have not yet adopted the federal rules governing the tax treatment of Roth IRAs, and there may be conflicts between federal and state tax treatment of IRA conversions. Consult your tax professional for your state's tax rules.

UPCOMING TAX DEADLINE

If you have an IRA, you can still make contributions to it that may affect your taxes for 2017. The deadline for 2017 contributions is April 17, 2018.

There may be benefits to leaving your account in your employer plan, if allowed. You will continue to benefit from tax deferral, there may be investment options unique to your plan, there is a possibility for loans, and distributions are penalty-free if you terminate service at age 55+.

Securities and investment advisory services are offered through Thrivent Investment Management Inc., 625 Fourth Ave. S., Minneapolis, MN 55415, a FINRA and SIPC member and a wholly owned subsidiary of Thrivent, the marketing name for Thrivent Financial for Lutherans, Appleton, WI. Thrivent financial representatives are registered representatives of Thrivent Investment Management Inc. For additional important information, visit Thrivent.com/disclosures.