Your rollover options

Leaving your job can be hectic, whether you're retired, laid off or moving to a new company. It may not cross your mind to take care of your previous employer-sponsored retirement plan, but this is an important box to check during your transition.

You have four options when it comes to your retirement assets: leave them with your former employer, roll them over into your new employer's retirement plan, roll them over into an IRA or cash out. As with most financial decisions, there are pros and cons to each choice, and your specific circumstances may make one choice more appealing than the others.

Leave assets in your former employer's plan

You can choose to leave your investments where they are when you leave your job, though you will not be eligible to continue making contributions. This is the default option if you choose to do nothing. However, if simplifying your retirement savings is your goal, this is probably not the route for you. If you leave your investments behind at each company, you'll have various accounts to keep track of throughout your career and distributions to take from each during retirement. Keeping in touch with former employers can be difficult. Your old plan may also have high fees, limited flexibility or poor allocation options when compared with an IRA or your new employer's plan. If your retirement account has less than $5,000, your former employer has the option of cashing you out of the plan, incurring taxes and penalties. Avoid getting cashed out by rolling the money over when you leave the company.

There are some advantages to leaving your money with your former employer. For instance, some large companies have access to lower-cost institutional funds that your new employer might not offer. In this case, it would be cheaper for you to stay with the old plan than to roll over into a new plan or IRA. Additionally, if you're 55 or older when you leave your job, you may be eligible for penalty-free withdrawals (though income tax would still apply), so keeping your investment in your former plan could give you access to money sooner.

> You can rollover assets from a Roth 401(k) to a traditional 401(k) and vice versa, as long as both plans allow for it. If your new company has a better selection of investments or lower prices than your previous employer, it makes more sense to do a rollover.

Rollover into new employer's plan

A rollover is moving assets from one account to another while avoiding taxes and penalties. You can move your assets from your old

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employer's plan to your new employer's plan seamlessly without losing any money. Choosing this option is advantageous because your assets will continue to grow in a tax-advantaged account, and you won't have to start over at each new company. You can rollover assets from a Roth 401(k) to a traditional 401(k) and vice versa, as long as both plans allow for it. If your new company has a better selection of investments or lower prices than your previous employer, it makes more sense to do a rollover. This way, you can also avoid having to keep track of old accounts with former employers.

Rollover into an IRA

In general, an IRA will offer you the most versatility and flexibility, so if you're unhappy with either your former or current employer's plans, an IRA may be a better bet. An IRA can also be more convenient, because you won't have to worry about rolling it over again if you leave your job in the future. One feature unique to IRAs is the ability to take penalty-free distributions early (before the age of 59 ½) in order to pay for your first home or qualified higher education expenses. You'll still pay income tax on the distributions, but you'll avoid the fees that you'd accrue if you cashed out of an employer plan. An IRA can also be a great vehicle for your heirs, who have the option of stretching out required minimum distributions with a traditional IRA, or avoiding them altogether with a Roth IRA.

There are two types of rollovers, whether you're rolling your money into a new employer plan or an IRA. A direct rollover is from plan to plan. No taxes are withheld, no penalties are owed and no money crosses your hands. For an indirect rollover, your previous plan administrator writes a check to you, withholding 20 percent for taxes. You'll have 60 days to transfer it to your new plan or IRA. If you exceed 60 days, you won't get the 20 percent in taxes back when you file a return, and you'll owe an additional 10 percent penalty for early withdrawals. A direct rollover is a simpler, safer route, but you'll have to make sure you have an IRA or new employer plan established first.

Cash out

This is the option least likely to be recommended to you, but it can be useful in certain circumstances. It's important to know that cashing out a retirement plan incurs a 20 percent tax and a 10 percent penalty for early withdrawal, so you won't actually get the amount listed in your account. If you're truly strapped for cash, or if you're over age 55 when you leave your employer (thus avoiding the early withdrawal penalty), you may want to consider cashing out. However, cashing out is generally not advisable. In addition to the taxes and penalties, your money will lose its tax-advantaged growth, and you may be damaging your future financial security. Cashing out in order to reinvest in a new employer plan or IRA is a costly mistake many workers make each year.

Now that you know your options, you can make an informed decision about your retirement assets. Leaving your job for any reason can be stressful, but jeopardizing your retirement security would be even worse.