



AUL  
FINANCIAL  
GROUP, LLC

# 401(K) **DECISION GUIDE:** TOP 5 401(K) PITFALLS



If you're experiencing job loss or furlough or are approaching retirement quickly, we know that you're facing complex, difficult decisions. When an unexpected job loss or furlough occurs, you have a crucial choice to make that can seriously affect your retirement years. That's why we wanted to share our top five 401(k) pitfalls — so that you know your options and can make the decision that's best for you.

That's also why it's an important time to talk to a financial professional about your retirement goals and which strategy helps toward those goals. Check out the helpful guide below!

# PITFALL #1

## NOT HAVING A STRATEGIC INVESTING PLAN

We're not talking about a retirement plan that says, "If you max out your 401(k) for 20 years and get 8% a year on your money, you can retire." We're talking about knowing what you own and why you own it. We're talking about not investing in anything until you know how it is going to fit into your strategic plan for financial independence. There are many considerations to take into account, such as when to invest in something, at what price you should invest, how much to invest, how long to invest in it, and when to get out.

Let's talk about that 401(k) — what are your choices?

Take it, leave it, move it, or roll it.

### TAKE IT

You can take the money in a check made payable to you, but your employer is required by the IRS to withhold a mandatory 20% federal income tax, and you'll have 60 days to put that money back into another qualified plan. However, if not done correctly, you may still incur a substantial income tax liability. You may also incur early withdrawal penalties.

## KEEP YOUR 401(K) WITH YOUR FORMER EMPLOYER

You can leave the money in your 401(k). The benefit here is that your money has a chance to grow tax-deferred and federal law provides broad protection against creditors. On the other hand, your investment selection may be limited or potentially come at a higher cost if you leave it where it is now.

## ROLL OVER THE MONEY TO YOUR NEW EMPLOYER PLAN

You can move the money to another 401(k) if your new employer allows. However, the same rules from above apply because the money is still in a 401(k) account. It's important to weigh your options so you don't incur fees or additional taxes.

## ROLL OVER THE MONEY TO AN IRA

You can exercise a direct rollover to your IRA. While a 401(k) is an accumulation vehicle, an IRA is an accumulation vehicle *and* offers more investment and distribution flexibility. By design, IRAs offer more versatility than 401(k)s. They are customizable in the areas of investment options and beneficiary strategies, and they offer tax-deferred growth potential. Take advantage of the additional options in an IRA by working directly with a seasoned financial professional.

# **PITFALL #2**

## **WITHDRAWING YOUR MONEY WITHOUT REINVESTING**

Some employees who have a sizeable 401(k) and are close to retirement feel they can withdraw their money, convert to cash, and ride that out through retirement. Many people are far too willing after a bear market to pay the income tax and keep the rest close to their chests.

While sometimes this can be the right decision, it can come with unintended consequences. One of the biggest issues is battling inflation and rising cost of living through the years.

If you withdraw your entire 401(k), the buying power of your money will likely be

less and less throughout the years. By the time you reach the end of your life, your retirement fund may be worth less and will buy less than ever before due to inflation. Unfortunately, this could have a large impact on your retirement plan.

It's tempting to look at the full value of your 401(k) and imagine what you could do with that money right now. But withdrawing your funds and not reinvesting could have a major impact on your retirement income.

## **PITFALL #3**

### **LEAVING YOUR MONEY INVESTED WHERE IT IS**

While leaving your 401(k) funds where they are after you leave a company can sometimes be advantageous, there are other options to consider that may be better for your situation.

If you leave your money where it is, your former employer decides what 401(k) provider to use and could limit the options of what you can and cannot do.

By leaving your money with your former employer, you may have less visibility with your investments than you would otherwise. If you're going to depend on this money in the twilight years of your life, wouldn't you rather have full visibility and control than lend that to someone you used to work for?

## **PITFALL #4**

### **MOVING YOUR 401(K) TO ANOTHER 401(K)**

This may not always be considered a mistake, but if you're near retirement age and leaving one company for another, it may not always be the best option for you to move your old 401(k) money into another 401(k).

Why? Because it may be beneficial to consider a rollover to an IRA. That's because IRAs usually offer better flexibility and versatility as a retirement account. You'll be able to have more control over your distribution options with an IRA while still accumulating funds in your remaining working years.

The decision is yours to make, but if you're moving from one job to another soon, a new IRA may be a beneficial option for you.

## PITFALL #5

### PLANNING TO ROLL OVER TOO MANY TIMES

When retirement planning without a financial advisor, some pre-retirees plan to roll over their money multiple times without knowing the restrictions set by the government.

If you roll over your 401(k) money once, you're offered a 60-day grace period to get your money into an IRA without penalty. Waiting beyond that 60 days means you could be liable to pay taxes and penalties.

But many don't realize that 60-day grace period is only offered once in 12 months. Without that knowledge, some pre-retirees plan on rolling over multiple times in a year and may incur unnecessary taxes and penalties.

Talk to a financial professional to discuss your specific situation and how this applies to you.

A 401(k) decision could have an impact on the success or failure of your retirement plan. You owe it to yourself and your family to have a customized written strategy that focuses on income, investments, taxes, and your estate.

*This information was developed as a general guide and is not intended as tax or legal advice. You should seek advice based on your particular circumstances from an independent tax advisor as tax laws are subject to interpretation and legislative change and are unique to every specific taxpayer's particular set of facts and circumstances. Financial professional is not affiliated nor endorsed by the Social Security Administration or any other government agency. Annuity guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.*

*Advisory services through Retirement Wealth Advisors, LLC. (RWA), an SEC-Registered Investment Advisor. Aul Financial Group, LLC and RWA, LLC. are not affiliated. Insurance and annuities offered through Steven Aul, MO Insurance License #8039738.*