

## 6 Choices When Your 401(k) Plan Terminates

1,115 VIEWS | Feb 16, 2019



**Mark Avallone, CONTRIBUTOR**

I help people on their path to Financial Freedom. [FULL BIO](#) ✓

Opinions expressed by Forbes contributors are their own.

Retirement planning is a major challenge for millions of Americans. Desirable defined benefit retirement plans, also known as pensions, are being phased out. With the demise of pensions, individuals increasingly have to invest their own money to fund their retirement. When an employee is investing their own earnings into a Company sponsored retirement plan, they are using a defined contribution plan, the most popular of which is the 401(k) plan. According to the [Investment Company Institute \(ICI\)](#), as of September, 2018, there were \$5.6 trillion of assets invested in 401(k) plans.



There are many challenges for participants in 401(k) plans, the most noteworthy is finding money to contribute into the plan. Once there are assets in the 401(k)

account, the investment decisions can seem complex. As I have previously written, this is one reason [Target Date Funds](#) are so popular.

An unexpected area of complexity comes when a 401(k) plan is terminated. There are a variety of reasons a 401(k) can terminate. The Company may no longer be able to afford the time and overhead associated with running a Plan, the Company could be going out of business, or is being sold to a competitor. Once the decision to terminate is made, there are many regulations an employer has to follow, and the expert administrators of the Plan are usually helping the employer follow all the complex notifications and rules.

However, employees whose 401(k) plan is facing termination, are often left to make difficult decisions regarding their account. When facing a plan termination, here are some options as well a few key considerations for each. It is important to note that not all of the relevant considerations can be listed here and other personal factors may need to be considered.

1. Open a self-directed IRA Rollover.
  - The investor retains control of the investment decisions.
  - Costs can be low due to the self-directed nature of the rollover.
  - No advice is available from a third-party.
2. Open an advisor directed IRA Rollover.
  - The investor can get professional assistance and develop a deeper relationship with an advisor that could help in other financial planning areas.
  - Costs are higher.
  - Be sure that the advisor is acting in your interests and not theirs!
3. Open an IRA at your current 401(k) Plan Provider.
  - Plan Providers don't like to 'lose' assets and many can open an IRA for former plan participants.
  - Limited advice is offered through a website, apps, or call center.
  - Could be helpful if investors don't want to self-direct but want to avoid a full-service relationship.
4. Transfer balances to the new employer's 401(k) Plan (if available).

- If the new employer has a plan that accepts rollovers, this could be attractive provided the employee is comfortable making investment selections.
  - The size of the new employer's plan could impact costs.
  - Participants in a Company sponsored plan are subject to plan changes or limitations such as blackout dates.
5. Liquidate balances.
- The least recommended option unless the employee is totally broke.
  - Will be a taxable event (unless you are in a zero-percent tax bracket).
  - Not usually a good move for long-term planning.
6. Consider a Roth IRA Rollover
- Likely to generate a sizable taxable event.
  - Amount invested can be reduced by amount of taxes withheld and paid.
  - Future growth can tax-free.

When a 401(k) plan is terminating, a plan participant faces complex decisions. This is especially true for older workers who need to be very careful with their accumulated assets. Therefore, I would suggest taking a comprehensive look at your overall financial plan before taking any action on a rollover.

A plan termination, or rolling out of a Company sponsored 401(k) plan, can be an opportunity. Carefully consider your options and seek a professional for guidance. If you would like to talk about your situation, call the [Potomac Wealth Advisors](#) team at 301-279-2221.