

What Should I Do with an Old Employer Plan

By Thomas Nguyen | True North Financial Group

A guide to old 401(k) and 403(b) accounts for people approaching retirement

An old employer retirement account deserves a deliberate review. You may be able to keep it where it is, move it to a new employer's plan, roll it into an IRA or take a cash distribution. The right choice depends on costs, investment options, withdrawal needs and benefits you would gain or lose. A rollover should solve a specific problem in your retirement plan.

My starting point is what the money needs to do for you. Are you still saving, preparing to stop working or looking for income later? Answering that question helps separate account convenience from a decision that can affect taxes, access and retirement security.

Compare the four main options

Option	Potential reason to choose it	Main issue to check
Leave it in the old plan	Keep favorable pricing, investments or plan benefits.	Plan rules, withdrawal choices and ongoing fees.
Move to a new employer plan	Consolidate workplace savings if the plan accepts it.	Acceptance, eligible money types and new plan quality.
Roll into an IRA	Seek different investments, services or income choices.	Total costs and benefits or protections lost.
Take cash	Meet an immediate spending need.	Income tax, possible penalties and lost retirement capital.

Consider a hypothetical 60-year-old with $500,000 entirely in pretax money in an old 401(k). An eligible direct rollover to a traditional IRA generally preserves tax deferral. Cashing it out instead generally creates taxable income. At age 60,

the usual additional 10% early-distribution tax does not apply solely because of age; income tax can still be substantial. [1, 2]



Figure 1 Illustration only. A full cash-out at an assumed 25% combined effective tax attributable to the distribution leaves $375,000. Actual tax may differ greatly. The $500,000 pretax balance remains subject to future tax; it is not $500,000 of after-tax spending money.

The cash-out illustration is not a tax estimate or an argument that every rollover is appropriate. It shows why the amount arriving in your bank and the balance remaining in a retirement account must be evaluated on the same tax basis. Avoid making the choice from the account balance alone.

Find out whether the existing plan is worth keeping

Before opening an IRA, request the old plan's fee disclosure, investment menu, summary plan description and distribution rules. If you have a new employer plan, obtain the same information there. A useful comparison shows what you would pay and what services you would receive in each place. Consolidation helps organization, but it does not automatically improve value.

Compare total costs in dollars

Include investment expenses, administration, recordkeeping and any advisory or service charges. An IRA may offer inexpensive self-directed investments or a more costly managed arrangement. An employer plan may provide institutional pricing or specialized investments. Compare similar investments and service levels rather than assuming one account type is always cheaper. [3]

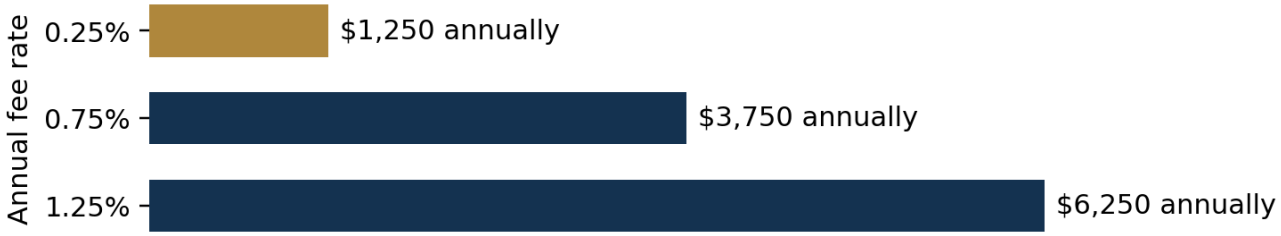


Figure 2 Hypothetical annual fees on a constant $500,000 balance. Calculation: balance × fee percentage. These are not quotes for any plan or IRA; returns, taxes and compounding are excluded.

The difference between assumed costs of 0.25% and 1.25% is $5,000 in the first year on $500,000. Higher fees may pay for services you value, but ask what those services are. A lower-cost option also needs appropriate investments and usable withdrawal features. Record the actual dollar comparison before deciding.

Identify features that may not follow you

For younger readers, separation from service in or after the calendar year you turn 55 can qualify certain employer-plan withdrawals for an exception to the additional 10% tax. That exception does not apply to IRAs. Our 60-year-old has already passed age 59½, but someone retiring at 56 should examine this before rolling over. [2]

Employer stock needs special attention. Net unrealized appreciation, or NUA, may allow favorable tax treatment for qualifying distributions of appreciated employer securities. Moving those shares into an IRA can eliminate that opportunity. Have a tax professional assess the requirements before selling or transferring company stock. [4]

Also compare creditor protection, withdrawal flexibility and beneficiary rules. ERISA-covered plans generally have federal creditor protections; IRA protection can differ by bankruptcy status, state law and the money's origin. Some plans, including certain 403(b) arrangements, are not covered by ERISA. Obtain legal advice if protection from creditors matters to your decision. [3]

Recognize when staying is a reasonable decision

Keeping the old plan can make sense when its pricing, investments or benefits fit your needs and it allows the withdrawals you expect. A new employer plan may be attractive if it accepts your money and compares well. Review its rules first; acceptance of rollovers is not automatic. [1] If the existing arrangement works, a deliberate decision to keep it can be part of an active retirement strategy.

Use the right rollover process and tax treatment

If an IRA or new employer plan is the better destination, confirm the account type and payment instructions before requesting a distribution. For eligible pretax money going to a traditional IRA or eligible pretax employer account, a direct rollover generally avoids current income tax. Moving pretax money to a Roth IRA is different: the conversion generally creates taxable income. [1, 4]

Direct payment avoids a withholding problem

An eligible rollover distribution from an employer plan paid to you generally has 20% mandatory federal withholding. A direct rollover avoids that withholding. A check made payable to the receiving retirement account may still qualify as direct even if you deliver it. Follow the administrators' instructions rather than making the check payable to yourself. [8]



Figure 3 Hypothetical $500,000 eligible pretax plan distribution. Direct rollover: $500,000 goes to the receiving account. Personal payment: $400,000 received and $100,000 withheld. Withholding is a tax prepayment, not the final tax bill.

If this 60-year-old receives $400,000 and completes an indirect rollover, the general 60-day rule applies. Rolling over the entire $500,000 requires replacing the $100,000 withheld from other resources. If only $400,000 is rolled over, the $100,000 not rolled over is generally taxable. Withholding is credited on the tax return. The age-based additional 10% tax ordinarily would not apply at 60. [8, 2]

Separate pretax Roth and after-tax money

Do not treat every dollar as the same tax category. Identify designated Roth contributions, pretax amounts and any non-Roth after-tax basis. Under applicable rules, a coordinated distribution may send pretax amounts to a traditional IRA and after-tax contributions to a Roth IRA. Allocation and documentation matter; after-tax contributions are not the same as designated Roth money. [5]

Ask the receiving institution how it will record each source and confirm Roth rollover rules before proceeding. A Roth conversion is a tax-planning decision, not an automatic benefit of consolidation. Model the tax cost alongside other income and available cash rather than using a large conversion simply to simplify accounts.

Check exceptions before sending instructions

Required minimum distributions cannot be rolled over. Outstanding loans, loan offsets, annuity contracts already inside a 403(b), or plan-specific surrender restrictions can complicate a move. [1, 4] Ask the administrator whether any

balance is ineligible, subject to a special deadline or costly to transfer. The ordinary plan-to-IRA rollover is not limited by the once-per-year rule that applies to certain IRA-to-IRA indirect rollovers. [1]

Keep transaction confirmations and tax forms. A properly completed rollover can still be reported on Form 1099-R, so receiving the form does not by itself mean the transaction was taxable. Have your tax preparer reconcile the distribution and the receiving account's records. [4]

Consider an annuity only after choosing the account

An IRA is an account with tax rules. An annuity is an insurance contract that may be held in an IRA when structured appropriately. Choosing an IRA does not require buying an annuity, and selecting an annuity does not by itself establish that leaving the employer plan is beneficial. Evaluate the rollover and the product separately.

Start with the income gap you want to cover

Suppose our hypothetical 60-year-old expects to retire at 65 and estimates that essential expenses will exceed Social Security and pension income by $1,000 monthly once all benefits begin. That is a planning assumption, not an income quote. First test the budget and the years before benefits start. Then compare keeping assets invested with using part of the money for contractual lifetime income.

An immediate income annuity generally begins payments within one year. A deferred income annuity begins later. Some deferred annuities offer optional guaranteed lifetime withdrawal benefits. Timing, covered lives, fees and withdrawal conditions affect what is guaranteed. Fixed, indexed, variable and registered index-linked products have different risks; lifetime income is not automatic in every contract. [6]



Figure 4 Hypothetical allocation within a $500,000 traditional IRA: $200,000 annuity premium, $250,000 investments and $50,000 IRA cash. Not a recommendation or quote. IRA cash remains subject to distribution tax rules; the premium is not also counted as available investment assets.

This allocation only frames a question: can a suitable written annuity quote cover an appropriate share of the future income gap while leaving enough accessible assets? No payment amount is assumed for the $200,000 premium. Actual terms may make this allocation unsuitable. Recalculate the entire plan using real quotes and compare an option with no annuity.

Read the tradeoffs as carefully as the payment

An annuity inside an IRA adds no extra tax deferral. Its insurance features must justify costs and restrictions. Check surrender charges, rider fees, any market value adjustment, inflation exposure and death or survivor benefits. Guarantees depend on the issuing insurer's financial strength and claims-paying ability. [7]

Annuitization generally restricts access to committed principal. A withdrawal rider may preserve some account access, but excess withdrawals can reduce benefits. A rider's benefit base is not necessarily cash value, and a payout percentage is not an investment return. Ask for guaranteed and nonguaranteed illustrations, the income start date, what happens if account value reaches zero and the consequences of a large withdrawal. [6, 7]

Compare the same premium, ages, payout election and start date across quotes. Ask how the person recommending a rollover or product is compensated. A recommendation should explain the value gained relative to the old plan, including what you would give up.

Make a decision you can explain and review

For the 60-year-old with $500,000, there is no automatic winner. Keep the old plan if its features fit. Use a new employer plan if it accepts the assets and compares favorably. Consider an IRA when its investments, services or income choices justify the move. Treat a cash distribution as a separate spending and tax decision with a quantified effect on retirement resources.

Prepare the comparison before moving money

Gather statements showing tax categories, beneficiary elections, plan fees, investment options and any employer stock or loans. Ask the administrator about partial rollovers, installment withdrawals and existing contract restrictions. Define when you need cash, the monthly income gap and the amount that must remain available for emergencies.

Request a written comparison of the current plan, any new employer plan and the proposed IRA. It should show total annual costs in dollars, relevant protections, investment choices and compensation. If an annuity is proposed, obtain a second comparison explaining the contract and an alternative without it. A partial rollover may be worth evaluating if the plan permits it.

After selecting the destination, verify receiving-account instructions and tax treatment with the institutions and your tax professional. Request the appropriate direct rollover, confirm receipt and check how the money is invested. A transfer does not necessarily invest the proceeds automatically. Update beneficiaries and retain the transaction records for tax reporting.

A message from Thomas

At True North Financial Group, I encourage you to start with what you want your retirement savings to accomplish. Bring your old plan statement, fee information and income goals to a conversation. We can discuss your insurance needs and the annuity questions to examine, while coordinating investment, tax and legal questions with appropriately qualified professionals.

Sources and important information

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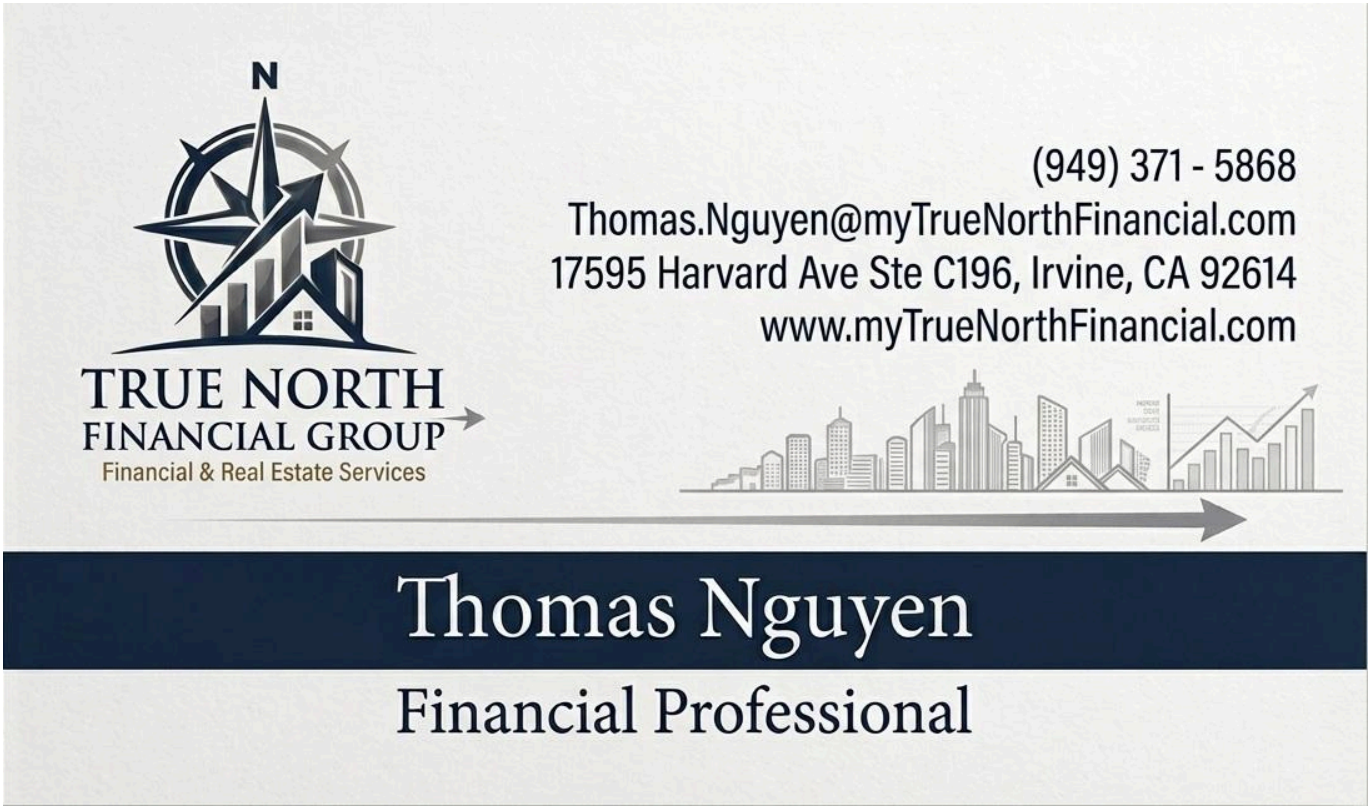
[5] IRS, Rollovers of After-Tax Contributions in Retirement Plans. https://www.irs.gov/retirement-plans/rollovers-of-after-tax-contributions-in-retirement-plans

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[8] IRS, Retirement Topics Termination of Employment. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-termination-of-employment

Sources checked October 21, 2026. General education, not individualized investment, tax or legal advice. Examples, fees, tax assumptions and allocations are hypothetical. No carrier quote or product recommendation is provided. Guarantees depend on insurer and contract terms. Prepared for Thomas Nguyen and True North Financial Group; no Morgan Stanley affiliation, authorship or endorsement is claimed. Confirm current law and your plan’s rules before acting.


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