MarketUnclouded

THE JOB-CHANGE PLAYBOOK · 2026 EDITION

Your 401(k) When You Leave

What to do with a company retirement plan after you quit, get laid off or retire: your four options, how to roll it over without a tax hit, and the special cases that change the answer.

Four options, one decision. What each costs in taxes today.

1	Leave it in the old plan	**No tax**
2	Roll it into the new employer's 401(k)	**No tax (direct)**
3	Roll it into an IRA	**No tax (direct)**
4	Cash it out	**Income tax + 10% under 59½**

Your 401(k) When You Leave a Job

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By Daniel Higgins · Market Unclouded LLC

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CHAPTER 1

The short answer

Keep it invested, keep it tax-deferred, and move it directly.

For most people, the best move is a **direct rollover** into an IRA or into the new employer's 401(k). Cashing out is usually the most expensive choice.

Your vested money is yours whether you quit, get laid off or retire. What changes is where that money lives next and what it costs to move it. You have four options:

1. **Leave it** in your old employer's plan.
2. **Roll it** into your new employer's 401(k).
3. **Roll it** into an IRA: traditional for pre-tax money, Roth for Roth money.
4. **Cash it out**, paying income tax and possibly a 10% additional tax.

You don't have to decide on your last day. A balance over $7,000 can usually stay where it is while you compare. Two things can't wait: an outstanding 401(k) loan, and any check that arrives made out to you.

KEY TAKEAWAYS

- Moving money plan-to-plan or plan-to-IRA by direct rollover triggers no tax and no withholding.
- A check paid to you starts a 60-day clock and comes with 20% withheld.
- Leaving at 55 or older, Roth money, company stock and backdoor Roth contributions can each change the best choice (Chapter 6).

CHAPTER 2

Before you decide: three things to check

Your vested balance, the plan's force-out rules, and any loan.

1. Your vested balance

Your own contributions are always 100% yours. Employer matching and profit-sharing money often vests over several years, and anything not vested when you leave goes back to the plan. Check the *vested* figure on your statement or the plan website. That figure, not the total balance, is what you can move. If you're close to a vesting date, it can be worth knowing before you pick a last day.

2. Whether the plan can push you out

Under SECURE 2.0, a former employer can move small balances without your consent, for distributions after December 31, 2023:

Vested balance	What the plan can do without your consent
Under $1,000	Mail you a check, with 20% federal tax withheld
$1,000 to $7,000	Roll it into an IRA it opens in your name, often invested in cash
Over $7,000	Nothing. You can stay in the plan until you choose to move it

If you're in the middle row, make the choice yourself. Default "safe harbor" IRAs are often parked in low-yield cash and charge custodial fees, and small accounts left there can shrink for years without anyone noticing. Plans may treat rolled-over money differently when counting your balance, so confirm with yours.

3. Any outstanding 401(k) loan

Many plans call the loan due when you leave. If you don't repay it, the unpaid balance becomes a **loan offset** and is treated as a distribution: income tax, plus 10% if you're under 59½.

> **YOU CAN STILL AVOID THE TAX**
>
> For a qualified plan loan offset, you have until your tax-filing deadline for that year, including extensions, to deposit an amount equal to the offset into an IRA or eligible plan. The deposit comes from your own cash, but it turns a taxable event into a rollover. Some plans also let former employees keep making loan payments; ask.

CHAPTER 3

The four options

When each one fits, and what it costs you.

Option 1 · Leave it in the old plan

Fits when the plan is low-cost, has good funds and your balance is over $7,000. It also keeps the Rule of 55 open if you left in or after the year you turn 55.

PROS

- No paperwork and no tax
- Often has cheap institutional share classes
- Strong federal creditor protection under ERISA

CONS

- No new contributions
- Some plans charge former employees more
- Easy to forget after several job changes
- Limited to the plan's fund menu

Option 2 · Roll it into your new employer's 401(k)

Fits when the new plan accepts rollovers and its funds and fees are at least as good as the old plan's.

PROS

- One account to manage
- ERISA creditor protection continues
- Keeps pre-tax money out of IRAs, so backdoor Roth stays clean
- "Still working" exception can delay required withdrawals from your current plan past 73

CONS

- Limited to the new plan's menu
- Some plans have a waiting period before accepting rollovers

Option 3 · Roll it into an IRA

Fits when you want full control over what you hold and where it's held.

PROS

- Hold nearly any stock, ETF, fund or bond
- Choose your brokerage
- Consolidate old plans in one place
- Pre-tax → traditional IRA; Roth 401(k) → Roth IRA

CONS

- Loses the Rule of 55 on that money
- Creditor protection outside bankruptcy varies by state
- Pre-tax balances complicate backdoor Roth
- More choice means more room for costly trades

Option 4 · Cash it out

A last resort for a true emergency. Even then, a partial withdrawal is often better than taking everything.

PROS

- Cash now

CONS

- Ordinary income tax on pre-tax money
- 10% additional tax under 59½ unless an exception applies
- 20% withheld up front may not cover the bill
- Decades of tax-deferred compounding lost

CHAPTER 4

What cashing out really costs

The check is smaller than the balance, and the bill can be bigger than the withholding.

Take a hypothetical $50,000 pre-tax balance. The worker is 40 and the money is taxed at a 22% federal rate. (A large distribution can push part of it into a higher bracket; this example keeps it simple.)

Item	Amount
Balance	$50,000
20% withheld by the plan (check you receive: $40,000)	−$10,000
Federal income tax at 22%	$11,000
10% additional tax	$5,000
Total federal cost, before state tax	**$16,000**
Still owed at filing, beyond the amount withheld	$6,000

You'd keep roughly $34,000 of $50,000 before any state tax. And the $16,000 never compounds again: at a hypothetical 7% average annual return, $16,000 left invested for 25 years grows to about $87,000. That's an illustration, not a forecast.

BEFORE YOU CASH OUT

- Check whether a smaller, partial withdrawal covers the need.
- If you're 55 or older in the year you left, the Rule of 55 may remove the 10% (Chapter 6).
- Other exceptions to the 10% exist, such as total and permanent disability; see IRS guidance before assuming one applies.
- Set aside the gap between the 20% withheld and your real tax bill.

CHAPTER 5

How to do a rollover right

Direct beats indirect, every time it's available.

Ask for a **direct rollover**, where the old plan sends the money straight to the new account. If a check is made out to you instead, you've started a 60-day clock and lost 20% to withholding.

	Direct rollover	Indirect (60-day) rollover
Who receives the money	The new IRA or plan, or a check payable to it	You
20% mandatory withholding	No	Yes
Deadline	None	60 days from receipt
To roll over the full amount	Nothing extra needed	Replace the withheld 20% from other cash

THE INDIRECT TRAP, IN NUMBERS

You request $50,000 paid to you, and the plan sends $40,000. To finish a full rollover you must deposit **$50,000** within 60 days, using $10,000 of your own savings. You get the $10,000 back as a refund when you file. Deposit only the $40,000, and the missing $10,000 is taxed as income and may also owe the 10% additional tax. If you miss the 60 days, the IRS allows waivers only in limited cases. (The once-every-12-months rollover limit applies only to IRA-to-IRA rollovers, not to moves out of a 401(k).)

Steps for a direct rollover

1. Open the receiving account first: a rollover or traditional IRA, plus a Roth IRA if you have Roth 401(k) money. Or confirm that your new 401(k) accepts rollovers.
2. Get the receiving firm's exact rollover instructions: payee name, account number and mailing address.
3. Contact the old plan's administrator and request a direct rollover. Many firms handle this on a three-way call.
4. Ask them to send pre-tax, Roth and after-tax money to the correct accounts.
5. If a check is mailed, make sure it's payable to the new custodian "FBO" (for the benefit of) you, and forward it promptly.
6. Confirm the deposit, then **invest it**. Rolled money often arrives as cash and sits there until you choose investments.
7. Keep the Form 1099-R. A direct rollover is reported on your return but isn't taxable when coded correctly.

CHAPTER 6

Special situations that change the answer

Age, account type and tax strategy can flip the default.

Leaving at 55 or older: the Rule of 55

If you leave a job in or after the calendar year you turn 55, you can take withdrawals from *that employer's* 401(k) without the 10% additional tax. Income tax still applies, and so does 20% withholding on what's paid to you. It doesn't matter whether you quit, retire or get laid off. Roll the money into an IRA and you lose that protection: IRA withdrawals before 59½ generally owe the 10% again. If you might need the money before 59½, leave at least part of it in the plan. Some public-safety workers in government plans qualify at 50. Confirm that your plan allows partial withdrawals.

Roth 401(k) money

Roll it into a Roth IRA, not a traditional one. A Roth IRA has its own five-year clock for tax-free earnings, which starts when you first fund *any* Roth IRA, so opening one early, even with a small amount, can help. Roth 401(k)s no longer have required minimum distributions, so this move is mostly about investment choice and convenience.

After-tax (non-Roth) contributions

If your plan holds after-tax money, you can usually send the after-tax basis to a Roth IRA and the earnings to a traditional IRA. Ask the plan to split the distribution.

Company stock: net unrealized appreciation (NUA)

If you hold your employer's stock in the plan, you may be able to move the shares into a taxable brokerage account instead of rolling them over. You'd pay ordinary income tax on the original cost basis now; the gain since purchase would be taxed later at long-term capital-gains rates. Rolling the shares into an IRA ends this option for good. Get professional advice *before* any rollover.

You use backdoor Roth IRA contributions

Pre-tax money in any traditional, SEP or SIMPLE IRA on December 31 makes a backdoor Roth conversion partly taxable under the pro-rata rule. Rolling an old 401(k) into an IRA can create that problem; rolling it into your new employer's 401(k) avoids it.

Several old 401(k)s from past jobs

Consolidating them into one IRA or your current plan makes rebalancing, beneficiary updates and future withdrawals simpler. Lost accounts are common: the U.S. Department of Labor's Retirement Savings Lost and Found database can help you locate one.

CHAPTER 7

Side-by-side comparison

The four options against the factors that matter most.

	Leave it	New employer's 401(k)	IRA	Cash out
Taxes now	None	None (direct)	None (direct)	Income tax + 10% if under 59½
Investment choice	Plan menu	Plan menu	Nearly anything	—
Keep contributing	No	Yes	Yes, IRA limits	No
Rule of 55 access	Yes	Only if you later leave that job at 55+	No	—
Creditor protection	Strong (ERISA)	Strong (ERISA)	Bankruptcy; otherwise varies by state	None
Backdoor Roth friendly	Yes	Yes	No, if pre-tax	—
Effort	None	Moderate	Moderate	Low, but costly

A SIMPLE WAY TO CHOOSE

- **55+ and may need money before 59½?** Keep at least part in the old plan.
- **Doing backdoor Roth?** Roll pre-tax money into the new 401(k).
- **Holding company stock?** Look at NUA before you move anything.
- **Otherwise:** compare fees and funds, then roll directly to whichever is better, usually an IRA at a low-cost brokerage.

CHAPTER 8

Your job-change checklist

Work through it before you move a dollar.

- [ ] Look up your vested balance and the date any unvested match would vest.
- [ ] Check for an outstanding loan, its payoff deadline and whether you can keep paying it.
- [ ] Compare fees and fund options: old plan, new plan and an IRA.
- [ ] Note your age in the year you leave. 55 or older? Keep the Rule of 55 in mind.
- [ ] Identify each type of money: pre-tax, Roth, after-tax, company stock.
- [ ] Decide whether you do, or may do, backdoor Roth contributions.
- [ ] Read your plan's special tax notice (the "402(f) notice") before signing anything.
- [ ] Open the receiving account(s) and request a **direct** rollover.
- [ ] Invest the money once it lands, and update your beneficiaries.
- [ ] Keep the 1099-R and confirmation statements for tax time.

REFERENCE

Glossary and sources

Key terms used in this guide, and where the figures come from.

Glossary

Vested	The part of your balance you keep when you leave.
Direct rollover	The plan sends money straight to another plan or IRA. No withholding, no deadline.
Indirect rollover	Money is paid to you; you have 60 days to redeposit the full amount.
Force-out	A plan moving a former employee's small balance without consent.
Loan offset	An unpaid plan loan treated as a distribution after you leave.
Rule of 55	No 10% additional tax on withdrawals from a plan you left in or after the year you turned 55.
NUA	Net unrealized appreciation: the gain on company stock held in the plan.
Pro-rata rule	Treats all your pre-tax IRA money together when you convert to Roth.

Sources

- IRS Topic No. 413, Rollovers from retirement plans — irs.gov/taxtopics/tc413
- IRS Topic No. 412, Lump-sum distributions — irs.gov/taxtopics/tc412
- IRS Publication 575, Pension and Annuity Income (age-55 separation exception)
- SECURE 2.0 Act of 2022: involuntary cash-out limit raised to $7,000 for distributions after Dec. 31, 2023
- U.S. Department of Labor, Retirement Savings Lost and Found database

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