Money

Lost your job? Here's what to do with your 401(k)

Consider all of the options when transitioning a work-sponsored retirement plan.

Dori Zinn
June 30, 2020 6:00 a.m. PT

3 min read

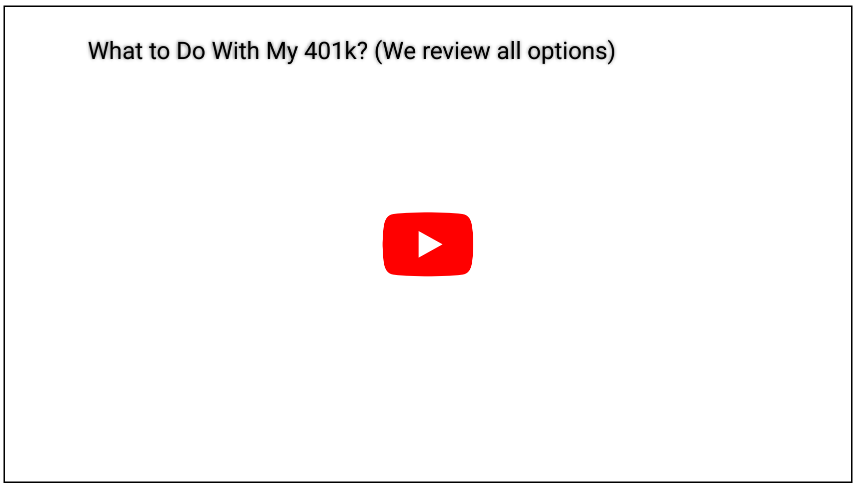
Getty Images

Every week, millions of Americans are filing for unemployment due to the COVID-19 crisis. Whether you've been with a company for six weeks or six years, if you lose your job, there are plenty of options for what to do with your vested retirement funds.

Read more: 5 investment accounts everyone should have

1. Leave it alone

Leaving your 401(k) with the company that currently manages it is the easiest thing to do, but that doesn't necessarily mean it's the right thing to do. The upside: There's no action required -- beyond changing your contact information if the company is currently using your work email address. The downside: Your old company will likely discontinue any matching programs, and if you let it lay fallow while still paying account fees, you could end up losing money. Some 401(k) plans may require you to maintain a balance of at least $5,000 to leave your account under management with a former employer.



Note that billions of dollars in retirement savings are left unclaimed each year. If you think you may have lost track of a 401(k) balance after transitioning away from a former employer, you can search for it on unclaimed.org -- a site dedicated to finding unclaimed property, including money.

Read more: How to start investing right now

2. Roll it over

Once you land a new job, you can roll over your old 401(k) into your new 401(k) -- assuming your new employer offers one. This tidy solution consolidates your work-sponsored retirement plans under one roof.

If your new employer doesn't offer a 401(k) option or you're between jobs, you can also move your 401(k) into an individual retirement account (IRA). An IRA has a lower contribution limit than a 401(k) -- $6,000 for an IRA compared to $19,500 for a 401(k) -- but both reduce your taxable income. In addition, an IRA is a personal account -- so it stays with you regardless of your employer and employment status. And if you take a new job that offers a 401(k), you can always roll it into your IRA if you end up leaving down the road.

3. Cash it out

In normal circumstances, cashing in on your retirement account before age 59 1/2 will subject you an early withdrawal penalty. But the CARES Act, passed by Congress in March, has relaxed early distribution penalties. For 2020, you can take out up to $100,000 without incurring the usual 10% tax penalty that's assessed on withdrawals made before the age of 59 1/2. And, in some specific circumstances -- including if you become disabled or need to pay medical bills -- you might qualify for a hardship exemption.

Note that this limit applies to an individual -- not a particular account. If you have multiple retirement accounts, you're still limited to a total withdrawal of $100,000. And if you repay whatever you withdraw within three years, you don't have to pay taxes on it.

Read more: Unemployed? Here are 8 online resume writing services to help you land a new job