



# How to manage a 401(k) left at a former employer

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**After leaving a job, there are options for managing the assets in a former employer's retirement plan. In this article, we will outline those options, including rolling the assets into another retirement plan or an individual retirement account (IRA).**

## Key points

- Although individuals leaving an employer typically retain ownership of their personal retirement plan contributions and investment growth, employer matching funds may be subject to vesting requirements.
- Several options are available for handling retirement plan assets after a job change—including lump-sum withdrawal, leaving funds in the former employer's plan, rolling over to a new employer's plan, or rolling over to an IRA—each with distinct tax, fee, and investment implications.
- Careful evaluation of plan rules, vesting schedules, tax consequences, and personal financial goals may help families determine the most suitable approach. Consulting a financial advisor may help to support informed decision-making.
- For more information, see UBS's ["Understanding your employer retirement plan distribution options" guide](#).

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When leaving a job—whether to retire, or to move to a new employer—individuals retain ownership of their personal contributions and investment growth in the former employer's retirement plan. These assets are not forfeited upon separation.

It is helpful to confirm where these funds are held and how to contact the plan provider, as this information supports tracking and future transactions.

## Options

There are four main options for managing assets held in a former employer's retirement plan:

### **Option 1: Leave the money in the former employer's plan**

If permitted, individuals may leave their retirement savings in the plan. Only vested funds are retained; unvested employer contributions may be forfeited. It is important to review the plan's rules regarding fees, as some plans charge higher administrative or maintenance fees to former employees than to active participants.

Additionally, many plans have "force-out" provisions:

- If the account balance falls below a certain threshold (e.g., \$7,000), the plan may require the assets to be moved—often by automatically rolling them into an IRA in the individual's name.
- For very small balances (e.g., below \$1,000), the plan may cash out the account and send a check, which could trigger taxes and penalties if not rolled over promptly.

Reviewing these rules can help individuals avoid unexpected costs or distributions.

### **Option 2: Roll over to an IRA**

Rolling assets into a Traditional IRA maintains tax deferral. Rolling a Roth 401(k) into a Roth IRA preserves tax-free growth. Rolling a Traditional 401(k) into a Roth IRA is a Roth conversion and therefore taxable in the year of conversion. However, unlike a cash distribution, a properly executed rollover is not subject to the 10% early withdrawal penalty.

### **Option 3: Roll over to a new employer's plan**

If eligible, individuals may roll their retirement account into a new employer's plan, maintaining tax-deferred status and possibly deferring required minimum distributions (RMDs) while employed. Not all plans accept rollovers; confirm the new plan's policies.

### **Option 4: Withdraw the money as a lump sum**

Cashing out means funds are sent directly to the individual. Plans generally withhold 20% as a pre-payment of federal income taxes, and withdrawals before age 59½ may incur a 10% early withdrawal penalty.<sup>1</sup> Additional taxes may apply, and this option can significantly reduce the long-term growth potential of retirement savings.

Table 1 - Four main options for managing funds held in a former employer's retirement plan

Option	Tax impact	Penalties	Investment flexibility	Key considerations
Leave in former employer's plan	Tax-deferred	No	Limited to plan menu	May face fees, "force-out" rules
Roll to IRA/Roth IRA	Tax-deferred/tax-free*	No	Broad investment menu	Roth conversion (rolling from Traditional to Roth) is taxable event
Roll to new employer's plan	Tax-deferred	No	Limited to plan menu	Not all plans accept rollovers
Lump-sum withdrawal	Immediate taxation	10% penalty**	Funds become taxable	May reduce long-term growth

Source: UBS.

\* Roth conversions (rolling from a Traditional 401(k) to a Roth IRA) would trigger income tax.

\*\* If under age 55 (with exceptions)

## Choosing the most appropriate option

Selecting among these options depends on individual circumstances. Consulting with a financial advisor may help families investigate and weigh options in the context of their financial plan and investment strategy. Factors to consider include:

- **Investment options:** IRAs may offer a broader range of investments than employer plans.
- **Fees and expenses:** Fees can vary between plans and providers; consolidating assets may reduce costs.
- **Account services:** Some retirement plan services may not be available to former employees.
- **Required Minimum Distributions (RMDs):** Individuals considering a rollover should note that a "still working" exception allows deferral of RMDs only for assets held in a current employer's retirement plan. Rolling funds into an IRA or leaving the funds in a plan from a previous employer would eliminate this exception, require them to take RMDs on these assets beginning at the statutory age (age 73 for those born before 1960 and age 75 for those born in 1960 or later). Delaying RMDs may or may not be beneficial to the family's after-tax growth—see the CIO Global Investment Management team's article "[Distribution strategies for IRA owners and beneficiaries](#)," published 3 March 2026, to learn more.
- **Beneficiary designations:** Families should regularly review and update beneficiary designations to ensure that they are aligned with their estate planning goals—especially when rolling over or consolidating accounts, or when there is a major life change (such as marriage, divorce, or welcoming a new child into the family).
- **Loan provisions:** Loans may be available from a current employer's plan, but not from IRAs or former employer plans.
- **Creditor protection:** 401(k) plans generally have strong creditor protections under ERISA; IRAs are subject to state law and federal bankruptcy limits.
- **Employer Stock and Net Unrealized Appreciation (NUA):** If a family holds employer stock in a retirement plan, they may benefit from NUA tax treatment by distributing only the stock to a taxable account. The stock's cost basis would be taxed as ordinary income upon distribution, but any appreciation would be taxed at long-term capital gains rates when sold. This strategy allows individuals to avoid immediate taxation on other plan assets. Consulting a financial advisor or tax specialist is recommended to ensure proper handling.
- **Coordination of assets:** Families may consider working with a financial advisor to review and integrate all of their assets, including retirement accounts. A coordinated approach may help ensure all assets are considered when making

decisions, optimizing financial planning and investment decisions across multiple account types. This process can also support asset location recommendations—helping families determine which types of investments are best held in taxable, tax-deferred, or tax-free accounts to improve after-tax returns.

After leaving a job, individuals cannot contribute to their former employer's retirement plan. To continue saving, they may want to open a retirement account with their new employer and set up payroll deductions or automated investments. The CIO Global Investment Management team's [2026 Savings waterfall worksheet](#), published 11 December 2025, offers guidance on prioritizing savings across different account types based on their expected after-tax growth potential.

## Additional considerations

This article addresses common factors in retirement plan rollovers, but plan provisions and tax implications can vary significantly, and special rules may apply (e.g., for appreciated employer stock). Individuals are encouraged to review their plan's specific details and consult with a financial advisor before making a decision.

To learn more, please refer to UBS's "Understanding your employer retirement plan distribution options" guide, available [here](#).

### End Notes

<sup>1</sup> Generally, withdrawals from a 401(k) before age 59½ are subject to a 10% early withdrawal penalty. If separation from service occurs during or after the year the individual turns 55, distributions from the employer's plan (but not IRAs) are exempt from this penalty. For other exceptions, see the [IRS website](#).

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