# Rollovers: 3 options

Rollovers: 3 options rated When you switch jobs, it's the move you absolutely have to get right.

By Walter Updegrave, MONEY Magazine senior editor

September 8 2006: 2:37 PM EDT  NEW YORK (Money) -- READER QUESTION: My wife is leaving her job as a teacher to be a full-time mom for the foreseeable future. She has about $15,000 in her 403(b) account with the school, but isn't sure whether to keep the money there or roll it over into an IRA. We're leaning toward the IRA, but would like to know what you think. - Tom C., Wall, New Jersey  Deciding what to do with retirement savings you've socked away through an employer's plan is an important issue that has big implications for your retirement security. So I'm glad you asked. This is something you don't want to mess up

It's also a decision many of us will likely face. Each month, more than four million people leave their jobs, some moving on to a new one, others retiring, some getting laid off and others just quitting.

Of course, not all those people have retirement savings with their employer, but given the number of people who participate in 401(k)s and 403(b)s (common in schools and non-profits), I'd estimate a good 1.5 million people a month find themselves grappling with the same question you're facing.

So what should someone in this position do?  Basically, three are reasonable choices - here's a quick look at each one.  Stick with your old plan  This can make sense if your old plan has a good range of investment options at attractive prices. Similarly, many employer retirement savings plans these days offer a variety of tools that can help you figure out whether you're saving enough for a comfortable retirement and provide assistance for investing your savings.  But before you decide to stay with your old plan, be sure you'll still have access to all the plan options even though no longer an employee.

You should also know that if your account balance is less than $5,000, the law allows your former employer to cash you out of the plan.

Roll into a new employer's plan  If you're moving to a new job and the company offers a retirement savings plan with a nice array of investing options at low to moderate cost, then simply switching the money from your old employer to your new one is probably the best course.  For one thing, it's probably easier to invest and keep track of your retirement savings if most of it is in one place.

Another advantage to having your savings in an employer plan is that you can most likely borrow against your account, which is something you generally can't do against assets in an IRA rollover. (As I've said in a previous column, however, I don't advocate 401(k) loans unless you've exhausted other options.) Roll into an IRA  If your new employer's plan offers mediocre investment choices, then you may want to roll your old 401(k) or 403(b) money into an IRA rollover account. This is simple to do as virtually any brokerage or fund company is eager to accept rollover accounts. (To avoid having taxes withheld on this transaction, have your employer transfer the money directly to an IRA rollover account you've already set up.)

Of course, many of the mutual funds you'll have access to will have higher fees than what you would pay in a company savings plan where you get to take advantage of institutional pricing.  But if you stick to low-cost index funds or even actively managed funds with low costs such as those in our Money 65 list of recommended funds, you should be able to create a nicely rounded portfolio at a very competitive cost.

There is one other advantage to the IRA rollover option - namely, after rolling into a traditional IRA, you can go a step further if you like and convert to a Roth IRA account. You'll have to pay taxes to do this, but I like the idea of having at least a portion of one's retirement savings in a Roth for several reasons, one being that it provides more flexibility when withdrawing money from your accounts come retirement time. For more on the advantages of having money in a Roth account, click here.  Which of these alternatives makes the most sense in your case? Well, that fact that your wife's not going to another job eliminates the option of rolling the money into a new employer's plan.  So that leaves you with the choice of keeping the money in your wife's old plan or rolling it over into an IRA. I don't know anything about the choices your wife's current plan offers.

But I do know that many school systems' 403(b) plans rely heavily on variable annuities as an investment choice.  And although the variable annuities within such plans are much like mutual funds in one sense, they typically have an extra layer of fees that can boost annual charges in some cases to 1.5% a year or even higher. So it wouldn't surprise me at all if you can do much better by rolling your money into an IRA account.  I also get the impression that your wife may be out of the workplace for a while as she takes on the challenging task of raising the kids. In that case, I'm not sure I'd want my money sitting for years with an employer that I may have very little contact with. I'd rather have my retirement savings in a place where I have more direct control over it.

So I think the IRA rollover option sounds like the best choice for your family. If your wife takes another job in the future, she can check out her new employer's retirement savings plan and, if it's up to snuff roll the IRA into that plan, assuming it allows such rollovers.  I've given you the basics here.

But for more advice on where to move your company retirement savings account whether you're switching jobs, leaving work for a while or calling it a career, I suggest you see the feature story my colleague Penelope Wang did on this very subject earlier this year.  As I said before, this can be one of the most important financial decisions many of us will ever make. So you want to make sure you get it right.