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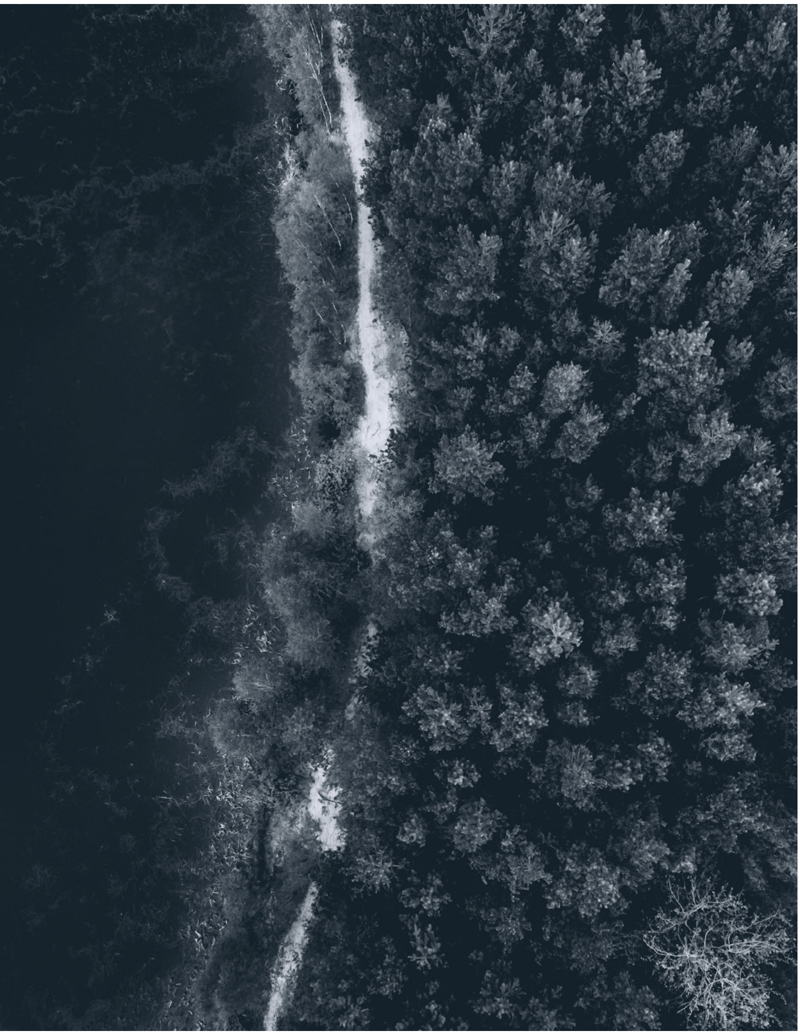
Ultimate 401(k) Guide

How To Take Control Of Your 401(k) Before And After Retirement

The 401(k) Is One Of The Most Important Retirement Planning Tools We Have.

You pay into it for decades and will likely rely on it, among other income sources, for decades in retirement. The potential tax benefits and power of compound returns can make it a great savings and investment tool for retirement. But to make the most of these accounts requires an informed strategy. There are several important things to know about your 401(k), such as how much you can contribute, options for your 401(k) when you leave your job, and how much you are paying in 401(k) fees.



This guide will cover:

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Options For Your 401(k)

Remember The Rules To The 401(k)[1]

The 401(k) is a retirement account offered by your employer. They may offer a matching percentage to what you contribute. They may also have customizable portfolios but are usually more inflexible than a brokerage account and IRA provider. Annual contribution limits for 401(k)s are $23,500 in 2025 and $31,000 for those over 50 years old. As of January 2025, you will also be able to contribute an additional $11,250 for those aged 60 to 63, bringing the annual total to $42,250. This limitation will be indexed to inflation for subsequent years. Funds cannot be withdrawn from a 401(k) without penalty until you reach the age of 59 ½, with some exceptions. Many other employer-sponsored retirement accounts emulate the 401(k) with key differentiations that will be discussed in this material.

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If your employer offers a matching contribution, it's important to know their annual rules and limits before making decisions about how much to contribute. The total contribution amount between you and your employer must not exceed the lesser of $70,000 for those under 50, $79,000 for those 50 and up, or 100% of employee compensation.

401(k) contribution limits apply to highly compensated employees (HCEs), classified by the IRS as those who meet one of two criteria:

- **Ownership test:** Owns more than 5% of the company, regardless of income.
- **Compensation test:** Ranks in the top 20% of pay, earning over $160,000 in 2025.

To prevent HCEs from benefiting disproportionately, 401(k) plans must pass IRS nondiscrimination tests:

- **Actual Deferral Percentage (ADP) test:** Compares salary deferrals.
- **Actual Contribution Percentage (ACP) test:** Assesses employer matching and after-tax contributions.

If results are imbalanced, HCE contribution levels may be adjusted, and excess contributions may need to be refunded.

If You Leave A Job For Any Reason, You Have A Few Options For Your Old 401(k):

Cash Out: You can cash out all or part of your old 401(k), in which case the funds will be taxed as ordinary income.

Rollover Into A New 401(k): If you start another job, your old 401(k) can often be rolled over into your new workplace retirement plan without paying tax on funds rolled directly into your new 401(k).

Continue With The Old 401(k): In many cases, you can leave your money in the 401(k) at your old workplace. However, having multiple retirement accounts can complicate your finances. And your retirement fund will still be at your ex-company. If your 401(k) balance is less than $5,000, you may be required to move the money into a different account.[2]

Roll Over Into an IRA: If you roll over funds directly into an IRA, you will not owe tax on them. IRAs typically offer many more investment options than workplace 401(k) plans, giving you more flexibility to pursue an investment strategy that suits you specifically. But note that rolling over into a Roth IRA means that you will pay taxes on the amount you deferred with your traditional 401(k).[3]

Be Mindful of Penalties: Mismanaging or mistiming your 401(k) contributions and transfers could lead to penalties, whether in taxes, non-deductible amounts, or in a 10% penalty fee for early withdrawal or a 6% penalty for overcontribution for each year it's left uncorrected. So, if you're making changes to your retirement account strategy, it could be wise to consult a financial professional to make sure you won't run into unexpected penalties.[4]

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What To Consider

How Much Of Your Retirement Savings Are Invested In Company Stock?[5]

If you plan to roll over your 401(k) into an IRA, first consider how much money you have invested in your previous company's stock. Would you have invested in the company if you didn't work there? If not, then why keep it now? If you do wish to keep it, consider that company stock that has increased in value can be taxed as investment gains at your current tax rate. So, how do you sell your company stock without increasing your tax burden? Using a tax strategy called Net Unrealized Appreciation (NUA), you can move the company stock into a taxable account to potentially lower your tax bill.

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What Is Net Unrealized Appreciation? (NUA)

NUA is the difference in value between the average cost basis (what you paid for stock shares) and the market value when the stock is distributed. So, if the cost basis of a stock was $20,000, and the value when it was distributed was $60,000, then the net unrealized appreciation is $40,000.

The distribution of an employer's stock qualifies for this special tax treatment, where tax is limited to the cost basis of the stock, not its full market value. You can then defer income taxes on the NUA until you sell the stock. You may also be able to minimize your tax burden by taking advantage of the long-term capital gains tax rates and getting a step-up in basis when you eventually sell or pass on your company stock.

Keep in mind that if NUA rules aren't met, there could be negative consequences. To start, the entire lump sum must be distributed in one calendar year. You must transfer shares, not cash, and it must be done after a triggering event such as death, disability, separation from service, or after age 59 ½. It can pose potential problems for retirees who are still in a high tax bracket, as it could potentially increase their tax burden in the year they distribute stock.[4]

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Are You 55 Or Older?

In most cases, you must wait until age 59 ½ to withdraw from a qualified retirement plan to avoid that 10% early distribution penalty. However, if you leave your job for any reason during or after the year you turn age 55, you can withdraw from your current 401(k) without penalty. Keep in mind that this rule applies only to the 401(k) sponsored by the employer you leave when you're 55 or older, not 401(k)s from previous employers. There are specific requirements pertaining to taking distributions when you turn 55, which, if not followed, will result in penalties.[6] These kinds of withdrawals should be discussed with your tax professional prior to taking a distribution.

Do You Have A 401(k) Strategy?

Before you start taking 401(k) withdrawals, make sure our other income sources and overall retirement plan are strategized together so that you don't incur penalties, increase your tax burden, or shorten the overall lifespan of your retirement funds. For example, the time at which you claim Social Security, as well as when you utilize other income sources, will all factor together in terms of when and how you generate your retirement income.

Are You Aware Of How Much You're Paying In Fees?

How much of your hard-earned savings is going towards 401(k) fees? The size of fees can vary: Some people may pay under 0.5% in fees, while others may pay more than 2%. This rate usually depends on the size of your employer's 401(k) plan, the number of participants, and many other specifics of the plan provider.[7] Such a low percentage might not seem like much to you, but over the course of your lifetime, it can add up.

Compare two 45-year-old employees with 20 years to go until they retire and $20,000 each in a 401(k). Assuming a 7% investment return, the employee paying 0.5% in 401(k) fees would have $70,500, and the employee paying 1.5% would have $58,000. That's 17% less! So, if you're examining your 401(k) accounts, make sure to look at your fees and assess if they are worth it!

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Catch-up Contributions At Age 50

Retirement accounts often have catch-up contribution limits for those over 50. However, as illustrated above, after you turn 50, there is an increased limit to that amount. This increased limit differs between types of retirement accounts and is designed to help people catch up on their retirement savings before it's time to retire.[8]

"

The SECURE Act 2.0 changed how catch-up contributions will work starting in 2025."

In addition to the new catch-up contribution rules for people aged 60 to 63, as covered at the top of this guide, The SECURE Act 2.0 continues to affect 401(k)s in 2025 and beyond. Below is a concise list of some of the key changes that have occurred and are set to occur in the future.

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SECURE Act 2.0 - Key Changes To The 401(k)[10]

01

Required Minimum Distributions

The age at which you must take Required Minimum Distributions (RMDs) for retirement accounts, including 401(k)s, increased from 72 to 73 starting for those who hadn't yet turned 72 prior to December 31st of 2022 and will change to 75 after 2032. Starting 2024, RMDs for Roth 401(k)s will be eliminated. Remember, RMDs for non-inherited Roth 401(k)s eliminated

02

401(k) Withdrawals

You can take "emergency" withdrawals penalty-free at any age up to $1,000 dollars per year to cover a foreseeable or immediate expense. However, you must repay the $1,000 dollars "within a certain time," or you won't be allowed to take additional emergency expenses for 3 years.

03

401(k) Student Loan Match

In an effort to make retirement saving more accessible to those with student debt, employers can make matching contributions to your retirement plan indexed to your student loan payments.

04

401(k) Lost And Found

The SECURE Act 2.0 green-lit the creation of a searchable database of all 401(k) accounts to help people locate benefits they may have lost track of. Currently, the Department of Labor is rolling out the database as the Retirement Savings Lost and Found (RSFL).

05

Automatic Enrollment

Employers will auto-enroll new eligible employees and existing non-participants in retirement plans, with some exceptions for church, government plans, and small businesses with 10 or fewer employees. Initial contributions start at 3% of pretax earnings, capped at 10%, and increase by 1% each year until reaching 10%-15%. Employees can opt out if they choose not to participate.

06

Roth Catch-Up Contributions

The SECURE Act 2.0 introduces a new rule for high earners (those over $145,000) aged 50+ to make 401(k) catch-up contributions on a Roth basis instead of traditional (pretax). The IRS has delayed this change to 2026 to allow more preparation time. Keep in mind that there are no income limits to contribute to a Roth 401(k).

07

Saver's Tax Credit

Starting in 2027, the SECURE Act 2.0 replaces the saver's tax credit with a "saver's match" program, providing lower-income earners a direct federal match of up to $2,000 for retirement contributions instead of a tax credit, potentially boosting retirement savings.

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Understand The IRA Rollover

There are many reasons you might consider rolling over an employer-sponsored retirement account to an Individual Retirement Account (IRA).

Here are some possible benefits to an IRA rollover:

- Save Money For Retirement
- Cut Your Tax Bill
- Increase Investment Options
- Convert To A Roth For Further Tax Advantages

1. Avoid A Higher Tax Burden

While it might be tempting to cash out of your old 401(k) in tough times, this could dramatically increase your tax burden because it will then count as income for that year. On the other hand, funds rolled over into a traditional IRA are not treated as withdrawals and are not subject to income tax. You can choose an IRA distributor that offers easier access to your funds, if that's what you're looking for. Also, you can continue to enjoy potential tax-deferred growth by rolling over funds directly into an IRA within 60 days of withdrawing from an old account.[11]

2. Gain Access To More Investment Options

IRAs might have a broader array of investment options and lower administrative fees than 401(k)s. With an IRA, you can invest in practically any stock, mutual fund, ETF, bond, real estate, or security. By consolidating your retirement savings into an IRA, you can gain more flexibility in your investment choices, allowing you to create a retirement plan customized to fit your unique needs. This is important because access to more types of investments could mean more options for mitigating investment risk as you near and enter retirement. If you think having control over your retirement savings is important, consider this: While most 401(k) plans limit the number of times per year you can rebalance your portfolio, an IRA allows you to buy and sell your holdings whenever you want. You can research whether there are fees associated with balancing your 401(k) and may want to seek out professional advice before rebalancing. Also, keep in mind that there is a lower annual contribution limit for IRAs and that employers cannot match IRA contributions like they can match 401(k) contributions.[12]

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3. Simplify Your Finances

Rolling over your old 401(k) may help you simplify your finances. Instead of keeping track of multiple former workplace retirement accounts, you can roll over your old plan or plans into one IRA and review a single account statement. Also, keep in mind that a communication gap could arise if you keep your old 401(k) with your ex-employer. It could be harder to get in touch with a plan advisor or administrator or harder for them to get in touch with you if your contact information changes. And, in the event that your company undergoes a significant change, such as filing for bankruptcy, access to your 401(k) could be temporarily frozen.

4. Option To Convert To A Roth IRA

You have the option to convert funds from a traditional IRA, 401(k), or similar qualified retirement account into a Roth IRA. In this case, you would pay tax on the funds converted and then be able to withdraw them tax-free later on. If you think you'll be in a lower tax bracket after you leave your job, you might consider a Roth conversion while your tax burden is lower.[13]

Be mindful that unless certain criteria are met, Roth IRA owners must be 59 ½ or older and have held the Roth IRA for five years before tax-free withdrawals are permitted. There are also different contribution limit rules that apply to IRAs. In 2025, the contribution limit for IRAs is $7,000. For those over 50, it's $8,000.[14] So, make sure you are familiar with how IRAs work before committing to a strategy. Please consult a tax advisor before deciding to make a conversion.

How We Can Help

If you are nearing or in retirement or have recently left a job, it's crucial to have a plan for your 401(k). Whether you are starting a new job or not, know how you will take control of your 401(k), how you will work to minimize your taxes, and how you will use your savings in retirement. We at VestGen Wealth Partners can help you pursue strategies to help meet all of these goals. We're transparent about our costs and fees and are morally and legally bound to act in your best interests. This means that we can address the myriad of options available and help you choose ones that are best suited to your financial needs. Our commitment is to provide you with the very highest level of service and to help you achieve your retirement goals, so don't hesitate to reach out to us today at **GetRetiredStayRetired.com** or **(847) 907-9600** for a complimentary review of your financial situation.

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