# MONEY MATTERS

## Cashing Out Your 401(k) Can Be Costly

*by Craig Brimhall*

(NAPSA)—Americans have become increasingly concerned about job security—and with just cause. Unemployment is on the rise, and that means many people will search for additional funds to help them get through a financially uncertain period of time. Some may choose to cash out their retirement accounts early. However, this seemingly easy choice carries a steep price.

For example, if you have $15,000 in your 401(k) and decide to take a lump-sum distribution after you leave your job, you'll lose the benefits of tax deferral and the potential opportunity for investment gains worth tens of thousands of dollars. Assuming an eight percent annual return, that same $15,000 could reach nearly $70,000 in just 20 years.

Additionally, taking a distribution can mean you'll get socked with a 10 percent early-withdrawal penalty as well as federal and state income taxes. If you're in the 27.5 percent tax bracket, federal taxes and penalties will add up to a large bite—$5,400 before state taxes—of your $15,000 distribution.

To avoid such losses, consider rolling your 401(k) to an Individual Retirement Account (IRA). Doing so will likely give you increased investment options and more control over your money. With an IRA, you can invest your money a number of different ways, including in stocks, bonds, mutual funds and certificates of deposit. As with a 401(k), your assets will still grow tax-deferred and, as your investments grow, you'll still enjoy the benefits of compounding growth.

IRAs provide more flexibility for distributions than a traditional employer plan. Another benefit is that you can convert to a Roth IRA. You'll pay taxes on the conversion amount, but you'll be able to enjoy the benefits a Roth IRA provides, including the potential for tax-free growth, no taxes on withdrawals after five years and age 59½, and no minimum distribution requirements.

**Even when times are tight, it can pay to think about your finances in the long term.**

When you leave your employer, you potentially have several options for the money in your 401(k), including: take it and spend it; keep it in your former employer's plan (if you have at least $5,000 in the plan); transfer it to your new employer's plan; or roll it over into an IRA. Before choosing, consider the impact of your decision.

According to a recent report by Cerulli Associates, of Americans who took a lump-sum distribution from a former employer's retirement plan, more than half chose not to roll the funds into an IRA. Considering the recent rise in corporate layoffs, literally millions of Americans may be squandering their future retirement assets when they get "pink slipped."

If you'd like to learn more about IRAs and how to handle your retirement fund dollars, consider consulting a professional financial advisor. Starting in 2002, the new tax law may provide even more options for rolling your money out of one retirement plan into another. A qualified financial advisor can answer your questions about a rollover IRA and help you make the most of your retirement funds, putting together a plan that's in step with your current and future needs.

To locate an American Express financial advisor near you, call 800-386-2042. Or, for more information about financial planning, visit the company's Web site at www.americanexpress.com.

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