THE HIDDEN PROBLEMS OF LEAVING A 401(K) WITH A FORMER EMPLOYER

What retirees and pre-retirees should understand before making long-term decisions.



RETIREMENT INCOME STRATEGIES PRO

Why This Topic Matters

When leaving a job, many people choose to **leave their 401(k) behind** with a former employer because it feels easy and familiar.

While this can sometimes be appropriate, it often creates **unnoticed limitations and risks**—especially as retirement approaches.

Understanding these issues can help you evaluate whether an old employer plan still fits your long-term retirement strategy.

Problem #1: Limited Investment Control

As retirement nears, flexibility often becomes more important than simplicity.

During bear markets, retirees face:

- ☑ A restricted menu of investment options
- ☑ Limited ability to customize risk
- ☑ One-size-fits-most models

➤ *What worked during accumulation may not align with income needs.*

Problem #2: Lack of Coordinated Retirement Income Planning

401(k)s are designed for saving, not distributing income.

Common limitations include:

- ☑ No structured income strategy
- ☑ No guaranteed income options
- ☑ Withdrawal decisions left entirely to the participant

➤ *Without coordination, withdrawals may increase volatility and uncertainty during retirement.*

Problem #3: Higher or Hidden Fees

While many plans advertise low expense ratios, participants may still pay:

- ☑ Administrative fees
- ☑ Record-keeping fees
- ☑ Fund-level management costs

➤ *These fees are often not clearly itemized, making it difficult to assess their true impact over time.*

Problem #4: No Ongoing Guidance or Oversight

Once you leave an employer:

- ☑ You lose access to HR resources
- ☑ Plan guidance may become generic
- ☑ There is no personalized review

Most former employees receive **no proactive communication** regarding:

- ☑ Risk exposure
- ☑ Income sustainability
- ☑ Market downturn planning

➤ *Employer plans are designed for current employees.*

Problem #5: Complications With Beneficiaries and Estate Planning

Older 401(k)s may:

- ☑ Have outdated beneficiary designations
- ☑ Lack coordination with trusts or estate plans
- ☑ Create administrative delays for heirs

➤ *These issues often surface only after death, when corrections are no longer possible.*

Problem #6: Required Minimum Distribution (RMD) Complexity

As retirement approaches:

- ☑ RMD rules must be managed carefully
- ☑ Multiple old plans increase complexity
- ☑ Errors can trigger IRS penalties

➤ *Consolidation may simplify oversight—but coordination matters more than consolidation alone.*

Problem #7: Reduced Flexibility During Market Volatility

During market downturns:

- ☑ Limited investment options restrict adjustments
- ☑ Withdrawals may force sales at poor times
- ☑ Emotional decision-making increases

➤ *Employer plans are not designed for downside income protection.*

Problem #8: Plan Changes Outside Your Control

Former employers can:

- ☑ Change plan providers
- ☑ Modify investment options
- ☑ Update fee structures

➤ *Participants typically have no influence over these changes once employment ends.*

Problem #9: Administrative Hassles Over Time

As years pass:

- ☑ Employers merge or dissolve
- ☑ Plan administrators change
- ☑ Records become harder to track

➤ *Lost accounts and paperwork issues are more common than most people realize.*

Common Assumptions That Deserve Review

- ☐ "I'll deal with it later"
- ☐ "It's performing fine, so I'll leave it"
- ☐ "I don't want to rock the boat"

➤ *Being proactive is a better choice.*



Potential Options to Review

(Educational — not recommendations)

- ☑ Leaving the account where it is
- ☑ Rolling into a new employer plan
- ☑ Rolling to an IRA
- ☑ Coordinating with an income-based strategy

Each option has **pros, cons, and tax considerations.**



A Better Question to Ask

Instead of asking:

✗ **"Is my old 401(k) okay?"**

Consider:

✓ **"Does this account still support my retirement income goals, risk tolerance, and tax strategy?"**

Next Step

If you have one or more 401(k)s from previous employers, reviewing how they fit into your overall retirement plan **before retirement** may help avoid unnecessary complexity later. You may need the expertise of a qualified retirement specialist.

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Kollar Wealth Advisors, LLC | Kollar Insurance Services, LLC

5 Revere Drive, Suite 200, Northbrook, Illinois 60062

www.RetirementIncomeStrategies.Pro | www.KollarWealthAdvisors.com

(847) 386-2010 (847) 879-1169