Rollovers disclosure:

A Rollover IRA is an account where you can move funds from your former employer-sponsored retirement plan into an IRA. With an IRA rollover, you can preserve the tax-deferred status of your retirement assets, without paying current taxes or early withdrawal penalties at the time of transfer.

You may keep your account at your former employer's 401(k) plan, but some changes will apply. You may not be able to make additional contributions to the account and may also give up the option of taking a loan from the plan. Also, you might incur extra costs, since some companies can stop paying certain fees for former employees who remain in the plan. Besides that, your former firm can automatically roll your savings into an IRA or require you to take cash distributions.

To avoid unexpected distributions or rollovers, be sure to check your former employer's rules regarding retirement savings accounts.

Rolling Over Your Account to Your New Employer

If you want to roll over your old account to your new employer's plan, you can. This can be done through a direct rollover or an indirect rollover.

In a direct rollover, you arrange the rollover with the administrator of the new plan, by filling out all necessary paperwork, and contacting the administrator of your former employer's plan and asking the money to be sent directly to the administrator of the new plan.

In an indirect rollover, it's your responsibility to ensure your retirement savings gets to your new plan within 60 days. This approach leaves you vulnerable to a tax hit and penalties if you don't do so within a set amount of time. Therefore, a direct rollover is the safer option when it is available.

Under IRS rules, employers must withhold 20 percent of the taxable portion of that distribution in the event you don't deposit that cash in a new tax-advantaged retirement account within 60 days. If you make that rollover within the 60-day window, the 20 percent withholding will be returned to you. If you don't make that 60-day window and you are younger than 59½, you may be subject to a 10 percent penalty.

Rolling Over Your Account to an IRA

If you don't like your employer's plan, you can choose to roll over your 401(k) into an Individual Retirement Account (IRA), another kind of tax-advantaged retirement account. This rollover can also be direct, or indirect.

Your old 401(k) determines what type of IRA you'll need to move your funds into. Converting a 401(k) into an IRA can be accomplished without paying new taxes if your IRA type matches your 401(k) — that is, if you roll a traditional 401(k) into a traditional IRA and a Roth 401(k) into a Roth IRA.

A rollover will be subject to taxes, however, when it entails moving from a traditional 401(k) into a Roth IRA in what is known as a Roth conversion.

In a Roth conversion, you pay taxes on your funds when you make the switch, but you eliminate federal income tax on future withdrawals. Make sure to check whether your 401(k) plan permits a Roth IRA rollover before considering this option. Once your IRA is established, you may continue making contributions until age 70 1/2, provided that you're continuing to earn income and your contributions don't exceed the limits set by the government.

Cashing Out

Deciding against a rollover and asking your 401(k) plan administrator to cash out the your investments is a common, but costly practice. By law, your former employer will withhold 20 percent of your funds and apply them to taxes. And you might be subject to additional taxes on top of that 20 percent withholding depending on your tax bracket. In addition, if you're younger than 59½ when you cash out, you'll likely be subject to a 10 percent early withdrawal penalty.