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# REACH


## Changing your job? Don't overlook potential tax issues

A job change is a significant undertaking. It requires readjustments in one's life irrespective of whether the change is due to a better career opportunity elsewhere or an employer-directed reduction in the workforce. A job change can also have tax consequences. **Here are three important tax-related issues that departing employees should pay close attention to:**

### 1 Retirement plan distribution options

If you have a retirement plan through your previous employer, with assets that may have grown over the years of your employment, you will have to decide what to do with that money. Typically, you can cash out your plan account (also known as taking a distribution) if you so choose. Just remember that the money in your retirement account generally has not been taxed,* so you'll have to include the distribution in your income on your federal (and possibly state) income tax return.

Your retirement plan is required to withhold 20% to send to the IRS as a prepayment on your overall federal income tax liability for the year. Moreover, if you are under age 59½, you generally will owe an additional 10% early withdrawal penalty unless you meet one of a number of limited exceptions.

However, you are not required to cash out your retirement plan assets. Your former employer's plan may allow you to leave your retirement savings in that plan. Or you may be able to roll your money over into your new employer's plan, assuming it accepts such rollovers. Another possibility is to roll your money over into an individual retirement account (IRA). Be sure you understand the potential advantages and disadvantages of each option before making a decision.

### 2 Tax withholding

Your last paycheck may include severance pay, deferred bonuses, commissions, and/or accrued sick time or vacation pay. And that may present a problem.

It's likely that you pay your income taxes through payroll withholding. However, you may have to make additional estimated tax payments if your employer has not withheld a sufficient amount of income tax. If you fail to pay the required amount of tax through withholding and/or through estimated tax payments, you may owe an underpayment penalty.

You can use the Tax Withholding Estimator, found at IRS.gov, to help you determine whether your federal income tax withholding is adequate. Or consult your tax professional. To have more tax withheld from your earnings, you would have to submit a new Form W-4 to your employer.

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## 3 Health insurance coverage

If you are not going to work for a new employer that provides health care coverage, consider your options carefully. You may be able to obtain coverage through your spouse's employer. If that's not an option, check to see if you qualify for "COBRA" continuation coverage under your current employer's group health plan. COBRA coverage is generally available for a limited period to terminating employees of private employers (and state and local governments) with 20 or more employees. In general, COBRA premiums tend to be higher because your employer will no longer be paying a portion. The Health Insurance Marketplace may offer less expensive alternatives.

Health insurance premiums are qualified medical expenses and, therefore, eligible to be taken as an itemized deduction. However, medical expenses are deductible only to the extent they exceed 7.5% of your adjusted gross income (AGI).

> **These are just some of the issues that could arise in connection with your job change. Consult a tax or financial professional if you have questions or would like assistance with planning for the transition.**

USI Consulting Group will help keep you on track to reach your retirement goals. If you have questions about your workplace retirement plan, please call our customer service center at 866.305.8846 or email us at directsolutionsparticipantquestions@usi.com *(reference your plan's name and 3-digit code in the subject line).*

*Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all requirements are met.