Moving Assets Between Retirement Plans

TRADITIONAL AND ROTH IRA

What is an Advantage of Moving Assets Between Eligible Retirement Plans?

You may move assets between eligible retirement plans by using an indirect or direct rollover between an employer-sponsored retirement plan and an IRA or by using rollovers, transfers, or recharacterizations between IRAs. This will allow you to avoid possible income and penalty taxes and continue tax-deferred growth until withdrawn.

IRA-to-IRA Rollover, Transfer and Recharacterization

Ways to move assets from one individual retirement account (IRA) into another IRA include: rollover, transfer, and recharacterization. However, rollovers and transfers must generally occur between IRAs of the same type (i.e., traditional IRA-to-traditional IRA or Roth IRA-to-Roth IRA). A recharacterization occurs between a traditional IRA and a Roth IRA, or vice versa.

You may not roll over or transfer assets from a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRA to a traditional IRA, or rollover traditional IRA assets to a SIMPLE IRA until two years have passed since the initial contribution date—the date of the first contribution by the employer to the SIMPLE IRA. If you participated in SIMPLE IRA plans of different employers, the initial contribution date and two-year period are determined separately for each SIMPLE IRA plan.

A conversion is the taxable movement of certain plan assets to a Roth IRA resulting in tax-free earnings/gains on the converted assets when withdrawn from the Roth IRA. While conversions are referenced in this brochure, a detailed explanation of the conversion process is not included.

What is a Rollover?

A rollover occurs when you receive IRA assets and you contribute part or all of them to an IRA (including back to the distributing IRA) within 60 calendar days of receipt. The 60-day period begins the day after you receive the distribution.

You are limited to one rollover per 1-year (12-month) period. You may only roll over one IRA distribution per 1-year period aggregated between all of your IRAs. For this purpose, IRA includes rollovers among traditional (including SEP), SIMPLE, and Roth IRAs. For example, if you have IRA 1, IRA 2, and IRA 3, and take a distribution from IRA 1 and roll it over into a new IRA 4, you will have to wait 1 year from the date of that distribution to take another distribution from any of your IRAs and subsequently roll it over into an IRA. The 1-year limitation does not apply to rollovers related to first-time homebuyer distributions, distributions converted to a Roth IRA, and rollovers from or to an employer-sponsored eligible retirement plan.

What is a Transfer?

A transfer occurs when IRA assets move directly from one IRA to another IRA without your direct control or custody of those assets.

What is a Recharacterization?

You may be able to treat a contribution made to one type of individual retirement account (IRA) as having been made to a different type of IRA.

The recharacterized amount may be all or part of the original contribution, plus any earnings attributable to that amount. You must complete a recharacterization on or before your federal income tax-filing due date, including extensions, for the taxable year for which the contribution was made.

You may want to recharacterize if you make a regular traditional IRA contribution that you later determine is nondeductible. Recharacterization allows you to treat your traditional IRA nondeductible contribution as a regular Roth IRA contribution.

The reverse may also occur. You may want to recharacterize if you make a regular Roth IRA contribution and later discover that you could have claimed a tax deduction for a traditional IRA contribution or because you have exceeded your modified adjusted gross income (MAGI) limits and are ineligible for part or all of the regular Roth contribution.

Employer Plans-to-IRA Rollovers

Distributions from certain employer-sponsored retirement plans are eligible for an indirect or direct rollover to another qualified employer plan or to a traditional or Roth IRA.

Which Employer Plans Can Make Eligible Rollover Distributions?

Employer plans that can make eligible rollover distributions include:

- Qualified trusts under IRC Section 401(a)
- Annuity plans under IRC Section 403(a)
- Annuity contracts under IRC Section 403(b)
- Certain governmental IRC Section 457(b) plans

What Assets Are Not Eligible for Rollover to an IRA?

Assets from employer plans that are not eligible for rollover to an IRA include:

- Required minimum distributions
- Any part of a series of substantially equal periodic payments over a life expectancy period or for a period of ten years or more
- Any hardship distribution
- A loan that is treated as a distribution due to default or because other requirements have not been met
- Costs reported as distributions associated with life insurance coverage
- Distributions of excess contributions or excess deferrals
- Corrective distributions of IRC Section 415 limit excesses and earnings

When Am I Eligible for a Distribution From My Employer's Plan?

Ask your employer or check the latest summary plan description you received as a participant. Common distribution events for plan participants may include:

- Separation from service—including retirement
- Your disability
- Attaining normal retirement age under the plan
- Termination of the plan

What is an indirect Rollover?

If you receive an eligible rollover distribution from your employer's plan, you can rollover all or a portion of that distribution to a traditional or Roth IRA or another qualified employer plan within 60 calendar days of receipt. The 60-day period begins the day after you receive the distribution.

An eligible rollover distribution that you receive is subject to mandatory 20 percent federal income tax withholding at the time of the distribution.

Any portion of the distribution (including the 20 percent withheld by the plan administrator) not rolled over to a traditional or SIMPLE IRA within 60 calendar days may be taxed as ordinary income, and a 10 percent additional penalty tax may apply if you are younger than age 59½. Direct and indirect rollovers to Roth IRAs are generally taxed as ordinary income but avoid the 10 percent penalty tax.

The one rollover per 1-year (12-month) limitation does not apply to the rollover of qualified employer plan assets to an IRA.

What is a Direct Rollover?

A direct rollover is like an IRA-to-IRA transfer in that an employer plan distribution is paid directly to an IRA or another qualified employer plan without your direct control or custody of the assets. Direct rollovers to traditional or SIMPLE IRAs incur no federal income tax or penalties. Therefore, direct rollover distributions are not subject to the mandatory 20 percent federal income tax withholding.

OTHER Frequently Asked Questions

Can I Move IRA or Employer Plan Assets to a SIMPLE IRA?

You can rollover traditional (including SEP) IRA and employer plan assets to a SIMPLE IRA two years following the date of the first contribution made to the SIMPLE IRA.

Can I Roll Over Roth Contributions in an Employer-Sponsored Retirement Plan?

If your employer has adopted a qualified Roth contribution program for its qualified plan as defined in Internal Revenue Code (IRC) Section 402A, assets, plus earnings, from these designated Roth accounts can be indirectly or directly rolled over to a Roth IRA or to a designated Roth account in another eligible retirement plan.

Can I Roll Over Traditional or Roth IRA Assets to an Employer Plan?

Only traditional IRA assets from an employer plan distribution are eligible for direct or indirect rollover to a qualified employer plan. However, nontaxable assets from these distributions are not eligible for rollover. Employer plans do not have to accept rollovers from a traditional IRA. Roth IRA assets are not eligible for rollover to a qualified employer plan.

This brochure is intended to provide general information on federal tax laws governing the movement of assets between retirement plans. It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), and the IRS's website, www.irs.gov, may also provide helpful information.

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