Moving Assets Between Retirement Plans

TRADITIONAL AND ROTH IRA

Manage Your Retirement Assets...Maximize Your Retirement Earnings

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

An indirect rollover, direct rollover, transfer or recharacterization of your assets between eligible retirement plans allows you to move assets from one tax-advantaged retirement plan into another. This will allow you to avoid possible income and penalty taxes and continue tax-deferred growth until withdrawn.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, indirect rollovers and transfers must occur between IRAs of the same type (i.e., traditional IRA to traditional IRA or Roth IRA to Roth IRA). A recharacterization occurs between different IRA types.

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movement of certain plan assets to a Roth IRA resulting in tax free earnings/gains on the converted assets when withdrawn from the Roth IRA.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

What is an Indirect Rollover?

An indirect rollover occurs when IRA assets you receive are sent directly to you and you contribute 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.

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. Examples include a recharacterization of all or a part of a traditional IRA-to-Roth IRA conversion back to a traditional IRA, and a Roth IRA rollover or direct rollover (conversion) from an employer plan to a traditional 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.

Reasons to recharacterize include:

- **Tax-Year Contributions.** 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.

- **Conversions.** If a conversion moves you into a higher tax bracket, you may decide to recharacterize the portion subject to the higher rate.

  To avoid paying taxes on converted assets that have declined in value (i.e., property-type investments), you may decide to recharacterize a conversion.

- **Rollovers from an Employer Retirement Plan.** Similar to conversions, due to possible tax implications, employer retirement plan-to-Roth IRA qualified indirect or direct rollovers may be recharacterized to a traditional IRA. Employer retirement plan-to-Roth beneficiary IRA indirect (available only to a spouse beneficiary) or direct rollovers (available to a spouse or nonspouse beneficiary) may be recharacterized to a traditional beneficiary IRA.

EMPLOYER PLANS-TO-IRA ROLLOVER

Distributions from certain employer-sponsored retirement plans are eligible for 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 generally beginning in the age 70½ year or after death
- 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 roll over 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 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. Indirect rollovers to Roth IRAs are generally taxed as ordinary income but avoid the 10 percent penalty tax.

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 IRAs incur no federal income tax or penalties. Therefore, direct rollover distributions are not subject to the mandatory 20 percent federal income tax withholding.

FREQUENTLY ASKED QUESTIONS

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

If your employer has adopted a qualified Roth contribution program for its qualified plan as defined in Internal Revenue Code 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?

Traditional IRA assets are eligible for direct or indirect rollover to a qualified employer plan. However, nontaxable assets in a traditional IRA are not eligible for rollover. Nontaxable assets in a traditional IRA could include nondeductible IRA contributions and nontaxable distributions rolled over from other employer plans. Employer plans do not have to accept rollovers from an 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 legal advice or 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, Individual Retirement Arrangements (IRAs)*, and the IRS's web site, www.irs.gov, may also provide helpful information.*

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