How Do You Rollover A Lump Sum Distribution?

You can effect a rollover from a qualified plan in one of two ways:

- Direct rollover – the funds from your qualified plan account are sent directly to the trustee or custodian of your IRA.
- Distribution to you – you have 60 days to redeposit the distribution as a rollover. If you choose this option, however, be aware that the administrator of the qualified plan is required by law to withhold 20% of your distribution for federal taxes. That can have a significant financial impact on you, as the following example illustrates.

Suppose you are entitled to a lump sum distribution of $20,000. If you choose to receive the funds, your employer is required to withhold $4,000, so you actually receive only $16,000. Under current tax law, you are considered to have made a “withdrawal” of that $4,000 – and you will owe taxes on that amount – unless you can come up with the $4,000 out of pocket and put it into the rollover IRA within the 60-day limit. Of course, you will be credited with a tax payment of $4,000 when you file your tax return – but coming up with the money within the required time may cause you hardship. It’s better to avoid this situation by having your funds rolled over directly to your IRA.

Roth IRA

Can I Convert From A Traditional IRA To A Roth IRA?

A Traditional IRA may be converted to a Roth IRA using special rules.

Guidelines for a conversion are as follows:

- You must take a distribution from your traditional IRA and complete the rollover within 60 days.
- The IRS will treat as income any sums that would have been taxable. Make sure to get all the facts to see if it will be fiscally worth it to convert.
- A separate Roth IRA should be used for the converted IRA amounts. These amounts must be accounted for a period of five years following the rollover.

What About Taxes?

When an individual converts assets from a Traditional IRA to a Roth IRA, you have to pay income tax on all pretax contributions and earnings included in the amount you convert.

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ROLLOVERS & TRANSFERS

WELCOME TO OUR FAMILY

Your *Journey* is Just Beginning ....

Traditional IRA

Rollovers, Transfers, Direct Rollovers

Your Individual Retirement Account is your first line of defense in building assets for a comfortable retirement. Because an IRA is so important to your future well being, it is vital that you place your funds where they will give you one of the best combinations of service, safety and earnings.

A rollover or transfer allows you to move your retirement funds without incurring immediate taxation or penalties, thus ensuring that your retirement dollars continue to grow tax-deferred until you need them.

What Are Rollovers & Transfers?

Rollovers and transfers are both ways to move retirement assets from one plan to another. In a rollover, you take receipt of your funds before depositing them in another account. In a transfer, your funds are moved directly from one trustee to another.

Why Would You Want To Make A Transfer Or Rollover?

There are many reasons for moving retirement funds, but the most common are:

- Relocation to another geographic area.
- Consolidation of several IRAs into one account.
- To obtain better service, greater safety or convenience.

Rollovers

What Are The Rules Governing Rollovers?

There are a number of rules you must follow to achieve a tax-free rollover of IRA funds:

- You must deposit the funds into another IRA within 60 days of the date you receive them. If you keep any of the funds, that portion of the money is taxable and may be subject to an IRS penalty on early distributions, unless it represents the return of a nondeductible contribution.
- Beginning January 1, 2015, you can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs a taxpayer may own. You can, however, continue to make as many trustee-to-trustee transfers between IRAs as you want. You can also make as many roll-overs from Traditional to Roth IRAs (“conversions”) as you want.
- If you are age 70½ or older when you take funds from your IRA, you cannot roll over your minimum required distribution for the year. If you do, the amount of your minimum required distribution will be considered an excess contribution to your new IRA and may be subject to an IRS penalty.
- You will have to document your rollover transaction when you file your federal taxes, even though it is not a taxable transaction. This is true because the trustee or custodian of the IRA from which the funds were disbursed is required to report the amount of the distribution to the IRS. Therefore, you must show the IRS that you rolled these funds over within the required 60-day limit.

Can I Make a Late (After the Expiration of the 60-Day Period) Rollover Contribution to My IRA?

Yes, you can make a late rollover contribution, if you:

1. Are entitled to an automatic waiver of the 60-day rollover requirement,
2. Request and receive a private letter ruling waiving the 60-day requirement,
3. Qualify for and use the self-certification procedure for a waiver of the 60-day requirement.

Transfers

What Are The Rules Governing Transfers?

Transfers are somewhat easier than rollovers.

- You can transfer all or part of an existing IRA to a new account.
- The transaction is not reported to the IRS, so there’s no additional documentation on your federal income tax return.
- Since there is no limit on the number of transfers you can make within a 12-month period, you can time transfers of Certificates of Deposit and similar investments to match maturity dates, thus avoiding loss-of-earnings penalties.

Does A Transfer Or Rollover Affect Current Contributions To An IRA?

Transferring or rolling over funds from one account to another does NOT affect the amount of your annual IRA contribution. You may still contribute the full amount allowed by law.

Direct Rollovers & Distributions

From Qualified Pension Plans

If you receive a lump sum distribution from a qualified pension plan, you may be able to roll those funds over into an IRA and, thereby, keep them growing tax-deferred until you really need them. If you choose not to roll over all or any portion of your distribution, the portion you do not roll over may be taxable and subject to an IRS early distribution penalty of 10%. It will also be subject to mandatory federal income tax withholding of 20%. Qualified retirement plans include pension, profit sharing, 401(k), stock bonus, Keogh and 403(b) plans.

You may receive a distribution from a qualified plan because:

- You leave your current employer, voluntarily or involuntarily (this does not apply to self-employed persons, unless they are disabled).
- The plan is terminated.
- You reach age 59½.
- You become totally and permanently disabled (this applies only if you are self-employed).
- You receive ownership of a qualified retirement plan account from a former spouse under a qualified domestic relations order.
- Your spouse dies and you inherit the funds in his or her qualified retirement plan.

Which Distributions Are Eligible For Rollover?

Generally, you can roll over all taxable distributions you receive from a qualified plan, including employer contributions, earnings and deductible employee contributions. Distributions that are NOT eligible for rollover include:

- Substantially equal payments made systematically (at least annually) over your life expectancy or over the joint life expectancy of you and your beneficiary or over a specified period of 10 or more years.
- Required minimum distributions made after you reach age 70½.
- A return of voluntary after-tax contributions you made to the plan.