

Ed Slott's Top 10 IRA Rollover Mistakes

1. IRA-to-IRA Rollovers and Roth IRA-to-Roth IRA Rollovers

Mistakes:

- ➔ Using 60-day IRA rollovers instead of using transfers to move IRA funds
- ➔ Once-per-year rule is for all IRAs and Roth IRAs
- ➔ IRS has no authority to correct these mistakes
- ➔ New client rollover mistakes - not asking about prior rollovers
- ➔ Not knowing the exceptions to the once-per-year IRA rollover rule

2. Non-Spouse Rollovers are NOT Permitted

Mistakes:

- ➔ Non-spouse beneficiary cannot do a rollover
- ➔ Taking a lump-sum distribution
- ➔ Putting a decedent's IRA funds into your own IRA
- ➔ Paying out the entire IRA to a trust beneficiary

3. Spousal Rollovers

Mistakes:

- ➔ Spousal rollover before age 59½
- ➔ Forgetting to do the spousal rollover at age 59½
- ➔ Not naming a successor beneficiary of the inherited IRA

4. 401(k) Rollovers to IRAs

Mistakes:

- ➔ Not reviewing all options (IRA rollover is not the only option.)
- ➔ Receiving a distribution personally and being subject to 20% withholding
- ➔ Not knowing the creditor protection of IRAs in your state
- ➔ Not first asking about the NUA (net unrealized appreciation) tax break
- ➔ Rolling over highly appreciated company stock to an IRA
- ➔ Not allocating the after-tax portion (basis) to a Roth IRA tax free

5. After-Tax Rollovers From Plans to IRAs and Roth IRAs

Mistakes:

- ➔ Not being aware of the allocation rules that allow the tax-free Roth conversion of after-tax plan funds
- ➔ Failing to allocate pre-tax and after-tax amounts to the correct account
- ➔ Rolling over all funds to a traditional IRA (Allocation rules do not apply to IRA distributions)
- ➔ Choosing to receive all funds personally

6. Roth Conversions (Technically IRA-to-Roth Rollovers)

Mistakes:

- ➔ Not advising on the income impact of a Roth conversions (other taxes may be triggered or tax benefits lost)
- ➔ RMDs (required minimum distributions) cannot be converted
- ➔ Choosing to receive all funds personally
- ➔ SIMPLE IRA cannot be converted until after 2 years
- ➔ Inherited IRAs cannot be converted, but inherited company plan funds can

7. In-Plan Roth Rollovers (401(k) to Roth 401(k) Conversions)

Mistakes:

- ➔ Not asking if in-plan conversions are available in the plan
- ➔ Not estimating the taxes due on the conversion
- ➔ Not checking first if a Roth IRA conversion is available

8. Rollovers to Any Retirement Account (60-Day Rule)

Mistakes:

- ➔ Losing track of the 60-day deadline
- ➔ Not knowing about the 20% mandatory withholding from plans
- ➔ Not knowing about the self-certification procedures for late rollovers
- ➔ Depositing the funds into a non-IRA account
- ➔ Choosing a 60-day rollover instead of a transfer

9. QDRO Rollovers in Divorce (From Plans Only) to Ex-Spouse as Alternate Payee

Mistakes:

- ➔ Rolling over all of a qualified domestic relations order (QDRO) distribution to an IRA and then taking an IRA distribution before age 59½
- ➔ Remember! A QDRO distribution is a 10% penalty exception, but only on distributions from the plans!
- ➔ Not knowing that an IRA rollover voids the 10% penalty exception
- ➔ Not knowing that QDROs do not apply to IRAs

10. Rollovers From IRAs Back to Plans

Mistakes:

- ➔ Rolling over basis into the company plan
- ➔ Only pre-tax funds can be rolled to the plan
- ➔ Failing to convert remaining IRA basis to a Roth IRA
- ➔ Not asking if your plan accepts IRA rollovers
- ➔ Not first checking plan restrictions on accessing funds (Funds are now subject to plan rules.)

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.