

Advanced Markets Matters

Rollover Opportunities

A Financial Professional's Guide



Ready to Roll: Rollover Opportunities



Trillions in Opportunities

Trillions of dollars are working for financial futures in **millions** of qualified plans and IRAs! This money may move between plans, financial institutions and financial products **tax-free** if certain rules are followed. This guide helps you understand those rules so you can help your clients.

1 Investment Company Institute, "Retirement Assets Total \$28.7 Trillion in First Quarter 2020," June 17, 2020.

Help Your Clients Understand Rollovers

Sticking with long-term goals may help achieve a successful retirement. That's why Congress created rollover options to encourage people in employer plans and IRA owners who receive distributions from qualified and similar plans to continue to save such distributions for retirement by facilitating tax-free rollovers to IRAs or other qualified plans.

A Word on Terminology

The term "rollover" is often used to describe any tax-free transfer of "qualified" funds – those held within qualified plans, 403(b) plans, 457(b) plans and IRAs – from one retirement plan to another. But this can be less than helpful, since rules can vary depending on:

- › the type of originating plan or account
- › the type of destination plan or account, and
- › the way the funds are actually moved between the two

For purposes of this guide, we will make a distinction between a direct rollover (i.e., transfer) and an indirect rollover (one subject to the 60-day rollover rules). An *indirect* rollover occurs when the distribution check is made payable to the participant or IRA owner and then redeposited in the same or different retirement plan.

Rules to Remember

Because stricter rules apply to indirect rollovers, direct rollovers are preferable. However, certain distributions simply cannot be directly or indirectly rolled over:

- A required minimum distribution (RMD) from a qualified plan or 403(b) plan
- Any distribution that is a series of substantially equal periodic payments (SEPP) payable over lifetime (or life expectancy) or for a specified period of 10 years or more
- Any hardship distribution
- After-tax money from an IRA to a qualified plan, 403(b) plan or 457(plan)

Indirect (or 60-Day) Rollover

- Indirect rollovers must be completed within 60 days.
 - The period begins the day after the taxpayer receives the distribution.
 - The requirement may be waived under certain circumstances (see below).
- Plan administrators must withhold 20 percent from distributions of qualified funds (other than from IRAs) made payable to plan participants.
- An IRA owner is restricted to only one indirect rollover from any IRA to another within any 12-month period.
 - The no-rollover period is 12 months from the date of receipt of the first distribution.
 - A conversion from a traditional IRA to a Roth IRA does not count for this purpose.
- Only a spouse beneficiary of an inherited IRA may do an indirect or 60-day rollover.
 - Non-spouse beneficiaries are only permitted to transfer funds from one inherited IRA to another.

Direct Rollover or Transfer

- No 60-day requirement on direct rollovers or transfers from qualified plans, 403(b) plans, 457(b) plans or IRAs.
- No automatic 20 percent withholding on direct rollovers or transfers from qualified plans, 403(b) plans or 457(b) plans.
- No limit on the number of direct rollovers or transfers between IRAs in any 12-month period.

Expanded Time Frames for Rolling Over Certain Distributions

- Plan loan offset distributions due to plan termination or severance from employment may be rolled over up until the due date, including extensions, for filing the participant's federal income tax return for the taxable year in which the offset occurs
- Penalty-free distributions for qualified birth or adoption may be repaid to a rollover-eligible plan at any time without regard to the annual contribution limit (effective for distributions after 2019)
- Penalty-free distributions for coronavirus-related distributions (CRDs) may be repaid to a rollover-eligible plan anytime within the three-year period beginning on the day after the date such distribution was received (effective for CRDs in 2020 only)

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Rollover Quick Reference

The IRS chart below covers all rollovers – direct and indirect. Takeaways include:

- Roth IRA rollovers are permitted only to another Roth IRA.
- Designated Roth Accounts [401(k), 403(b), 457(b)] are permitted only to another Designated Roth Account or a Roth IRA.
- SIMPLE IRA rollovers are permitted only to another SIMPLE IRA within the first two years.
- Rollovers from a traditional IRA, SEP IRA, SIMPLE IRA (after two years), qualified plan or 403(b) to a Governmental 457(b) must be kept in a separate account.

| | | ROLL TO | | | | | | | |
|-----------|--|------------------------------------|------------------------------------|--------------------------------------|------------------------------------|------------------------------------|---------------------------------------|----------------------|--|
| | | Roth IRA | Traditional IRA | SIMPLE IRA | SEP-IRA | Governmental 457(b) | Qualified Plan ¹ (pre-tax) | 403(b) (pre-tax) | Designated Roth Account (401(k), 403(b) or 457(b)) |
| ROLL FROM | Roth IRA | Yes ² | No | No | No | No | No | No | No |
| | Traditional IRA | Yes ³ | Yes ² | Yes ^{2,7} , after two years | Yes ² | Yes ⁴ | Yes | Yes | No |
| | SIMPLE IRA | Yes ³ , after two years | Yes ² , after two years | Yes ² | Yes ² , after two years | Yes ⁴ , after two years | Yes, after two years | Yes, after two years | No |
| | SEP-IRA | Yes ³ | Yes ² | Yes ^{2,7} , after two years | Yes ² | Yes ⁴ | Yes | Yes | No |
| | Governmental 457(b) | Yes ³ | Yes | Yes ⁷ , after two years | Yes | Yes | Yes | Yes | Yes ^{3,5} |
| | Qualified Plan ¹ (pre-tax) | Yes ³ | Yes | Yes ⁷ , after two years | Yes | Yes ⁴ | Yes | Yes | Yes ^{3,5} |
| | 403(b) (pre-tax) | Yes ³ | Yes | Yes ⁷ , after two years | Yes | Yes ⁴ | Yes | Yes | Yes ^{3,5} |
| | Designated Roth Account (401(k), 403(b) or 457(b)) | Yes | No | No | No | No | No | No | Yes ⁶ |

1 Qualified plans include, for example, profit-sharing, 401(k), money purchase and defined benefit plans.
 2 Only one rollover in any 12-month period.
 3 Must include in income.
 4 Must have separate accounts.
 5 Must be an in-plan rollover.
 6 Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.
 7 Applies to rollover contributions after December 18, 2015.

What to Do If the 60-Day Deadline is Missed

The IRS may waive the 60-day requirement if the failure to do so would be against equity or good conscience, for reasons including casualty, disaster or other events beyond the reasonable control of the individual.

There are two ways to obtain such a waiver:

- › Self-certify that the individual is entitled to the waiver and the administrator or financial institution can rely on their certification, or
- › Apply to the IRS for a private letter ruling (PLR).

Self-Certification (Rev. Proc. 2016-47)

To be eligible to self-certify, individuals:

- › Must not have been previously denied a waiver by the IRS for this particular distribution.
- › Must have been unable to complete the rollover due to one or more of 11 acceptable reasons (see below).
- › Must complete the rollover as soon as practical after the reason that prevented them from completing it no longer prevents them.

Completing the rollover within 30 days after the reason no longer prevents the rollover will automatically be deemed to comply with the requirement to complete it as soon as practical. Acceptable reasons include:

- › Financial institution error
- › Mislabeled or never cashed check
- › Mistaken belief deposited into an eligible retirement plan
- › Severe damage to principal residence
- › Death of family member
- › Illness of taxpayer or family member
- › Incarceration
- › Imposition of restrictions by a foreign country
- › Postal error
- › Return of proceeds distributed on account of IRS levy
- › Delay in providing information by party making the distribution needed by the receiving IRA to complete the rollover despite the clients' reasonable efforts to obtain the information







Private Letter Ruling Request (Rev. Proc. 2018-1)

Requesting a waiver via a private letter ruling is costly. It requires payment of a "user fee" (\$10,000) and fees charged by professionals to prepare a ruling request (an additional \$5,000 to \$10,000). The granting of relief is not automatic. Facts and circumstances determine whether any additional time beyond the 60-day period will be allowed.

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Some Do's and Don'ts of Rollover Decisions

Considerations Based on Client Circumstances

-  **Do use a trustee-to-trustee transfer from a qualified plan to an IRA if the owner is under 59½** and intends to use the different exceptions to the early distribution penalty that are only available with an IRA — such as for first-time home purchase or higher-education expense.
-  **Don't do a trustee-to-trustee transfer to an IRA if the owner is retiring at age 55 or older** and wants to use the “early retirement” exception available only for distributions from qualified plans and 403(b) plans.
-  **Do use a trustee-to-trustee transfer to a single premium immediate annuity (SPIA) if the client is at least age 59½ and wants IRA income for two.** A joint-and-survivor SPIA with a spouse who is the IRA owner's sole beneficiary will satisfy the RMD rules.
-  **Don't do a trustee-to-trustee transfer from a deceased spouse's qualified plan or IRA to the surviving spouse's own IRA if the surviving spouse is under 59½ and will need access to the funds.** Distributions from an inherited plan are always exempt from the 10 percent early distribution penalty due to the death of the account holder.
-  **Do take advantage of Notice 2014-54 if there are after-tax contributions in a qualified plan and direct the plan administrator to schedule and allocate the pre-tax portion to a traditional IRA and the after-tax contributions to a Roth IRA.** This strategy avoids any current taxation and converts future taxable earnings on the after-tax contributions to potential tax-free earnings.
-  **Do consider a taxable rollover – a Roth conversion – of a little or a lot.** With income tax rates temporarily reduced under the Tax Cuts and Jobs Act of 2017, converting to a traditional IRA or converting pre-tax amounts in qualified plans, 403(b) plans and governmental 457(b) plans may make added sense. Having access to tax-free income during retirement can not only lower an individual's taxable income, but can also lower the amount of Social Security benefits subject to taxation and lower the amount of Medicare Part B and Part D premiums.

Annuities at a Glance

| | Fixed Annuity | Variable Annuity | Immediate Annuity |
|---|---------------|------------------|-------------------|
| Guaranteed Interest Rate Minimum interest rate guaranteed for life of contract | ✓ | | |
| Allocation Options Interest crediting periods and/or investment options | ✓ | ✓ | |
| Growth Potential Greater growth potential with increased risk exposure | | ✓ | |
| Stability Profile Greater stability with reduced growth potential | ✓ | | |
| Withdrawal Options Access to a portion of contract value free of surrender charge | ✓ | ✓ | ✓ |
| | | | |
| Immediate Income Payouts begin right away and can continue for life (single/joint) | | | ✓ |
| Guaranteed Death Benefit Beneficiary receives contract value if death is during deferral period | ✓ | ✓ | |

Destination: Protected Retirement Income

Eight in 10 boomers believe it is very (60%) or somewhat (21%) important for income sources to be guaranteed for life.¹

Rolling over to an annuity with a life contingent payout option – an insured solution – can provide a predictable strategy in an unpredictable world. Transferring some investment and risk management to a highly rated insurer can offer certainty and confidence — regardless of how long the client lives or where the market goes.

¹ Insured Retirement Institute, “Boomers Expectations for Retirement 2019,” Key Findings.

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