Understanding your IRA – and your options

In preparing for your future retirement, you may have used an individual retirement arrangement (IRA) to accumulate retirement savings. But at some point you may wonder whether you should maintain your IRA as it currently is.

Should you maintain your IRA as it is, **OR, DOES A CHANGE** MAKE SENSE FOR YOU?

Should you move it to another IRA with different funding choices, convert it to a Roth IRA, or move it to your current employer's plan? Before you make a decision about your IRA, you should understand:

- The two types of IRAs (traditional and Roth),
- the transactions with which you could move your money between two IRAs, and
- the options available to you.

Two general types of IRAs

Traditional IRAs are generally funded only with before-tax dollars subject to annual Internal Revenue Code (IRC) limits and rules. Withdrawals are generally fully taxable when you take them. If you take withdrawals before age 59½, they may be subject to a 10% federal additional tax. Traditional IRAs are subject to required minimum distributions (RMDs), which start at age 70½. After-tax dollars can also be used to fund a traditional IRA and they too are subject to IRC limits and rules.

Roth IRAs, on the other hand, are funded only with after-tax dollars and generally either through contributions or traditional IRA conversions. Distributions after age 59½ are completely income-tax-free – as long as the Roth owner has met a five-year requirement. The five-year requirement is based on when the owner first funded any Roth IRA. There are no required minimum distributions during the Roth owner's lifetime, but certain RMD rules do apply to Roth IRA beneficiaries.

Types of transactions to move money from IRAs

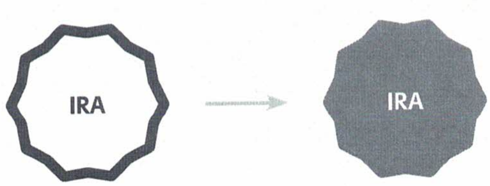
Whether you change jobs, quit, are laid off, retire, or simply want alternative choices for your retirement savings, you may consider moving your IRA to a different IRA, to a new employer's qualified plan, or elsewhere.

But how and where you move the assets makes a big difference. While the possibilities may appear to be simple, there are rules that can make your decision more complex. Not understanding the rules may cause delays and possibly unexpected tax consequences.

Transfer

A transfer applies when **the same type of IRA is moved directly from one financial entity to another.** An example would be moving your traditional IRA from one IRA provider to another traditional IRA at another IRA provider. This is the same for Roth IRAs, Savings Incentive Match Plan for Employees (SIMPLE) IRAs, and Simplified Employee Pension (SEP) IRAs. For transfer purposes, traditional IRAs, SEP IRAs, and after the second year of participation in a SIMPLE IRA plan, SIMPLE IRAs are treated as the same type of IRA.

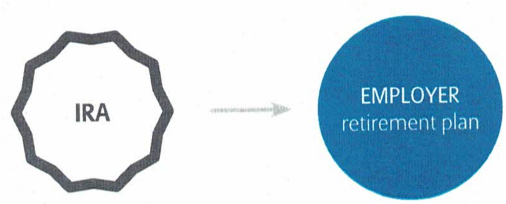
With a transfer, the IRA owner does not receive access to the funds. Transfers are not reported to the Internal Revenue Service (IRS), and are not taxable when the entire amount is transferred because assets were never made payable or distributed to the taxpayer. There is no income tax withholding and no limit on the number of transfers you can make.



Rollovers

Rollovers are a bit more flexible. You can move retirement funds from one financial institution to another using a rollover. Or you can also move retirement funds from the financial institution, to you the owner, and then to another financial institution using a rollover. Depending on who is involved in that movement of funds, a rollover can either be a direct rollover or an indirect rollover.

- **Direct rollover**
  With a direct rollover, funds are generally moving between different plan types. Moving assets from an IRA directly to an employer-sponsored plan (such as a 401(k), 403(b), or governmental 457(b) plan) is called a direct rollover. If you participate in an employer-sponsored plan, you may check with your employer to see if the plan will accept your retirement funds from an IRA. A direct rollover is different from a transfer, because it does not involve funds moving between two IRAs. But similar to a transfer, with a direct rollover the funds were never made payable or distributed to you.

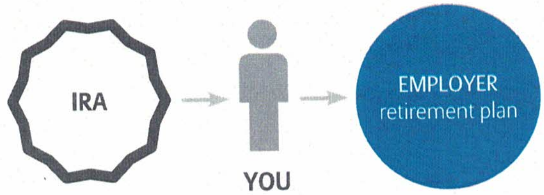


- **Indirect rollover**

Moving funds from a financial institution to the IRA owner – and then to another financial institution – is called an indirect rollover.

An indirect rollover is different from a direct rollover because when the funds move or transfer from the financial institution, the IRA owner has access to the funds before they move to another financial institution. If you choose to take a distribution from your IRA using this method, you can have access to the funds for up to 60 days before you deposit the funds into the new qualified plan or IRA.

If the indirect rollover is complete within the 60 days and all rollover requirements are met, the IRA distribution will not be subject to income tax. Withholding is required if the IRA owner does not specifically elect no withholding. If there is withholding, the withheld amount is subject to income tax, unless the IRA owner rolls over the withheld amount using other funds.



As an IRA owner, you can only complete one indirect IRA-to-IRA rollover in any 12-month period. See blue box on page 7 for more information on the one rollover rule.

It is also important to be aware that while IRA-to-IRA transfers are almost always permissible, certain types of distributions are not eligible to be rolled over. For example, a required minimum distribution (RMD) is not eligible to be a rollover.

Understanding the differences among the transfers, direct rollovers, and indirect rollovers is essential to minimize the potential for errors and unintended consequences.

TRANSFERS	DIRECT ROLLOVERS	INDIRECT ROLLOVERS
Only for direct movements of funds between two IRAs (or sometimes between two employer plans)	For any direct movement of funds that is not between two IRAs	For any indirect movement of funds
Funds transfer directly from one financial institution to another	Funds move directly from one financial institution to another	Funds are distributed from the financial institution to the IRA owner or plan participant and then to another financial institution
Owner does not have any access to the funds since nothing flows through the owner's hands[1]	Owner or plan participant does not have any access to the funds since nothing flows through their hands[1]	Owner or plan participant has access to the funds and 60 days to deposit the funds into the new qualified plan or IRA
No taxation when entire amount is transferred	No taxation when entire amount is directly rolled over	No taxation if the funds meet all rollover requirements, including being rolled over within 60 days, but 20% is withheld if source was a qualified retirement plan (401(k), defined benefit, etc.), 403(b) plan, or governmental 457(b) plan[2]
	Often incorrectly referenced as a transfer because they are done by a trustee-to-trustee transfer	Often incorrectly referred to generically as rollover

[1] If a check is made payable to the other financial institution and proper transfer or rollover paperwork is completed, the owner may receive the check without being considered to have access to the funds.

[2] No actual income tax is triggered as long as you make up the 20% out of pocket and deposit the funds into a traditional IRA within 60 days from the day you receive the check.