



# SUMMARY OF ROLLOVER, DIRECT TRANSFER, AND DIRECT ROLLOVER RULES

For purposes of this discussion of rollovers and direct transfers, (a) the term "traditional IRA" means a traditional individual retirement account, traditional individual retirement annuity or traditional individual retirement bond, and (b) the term "fiduciary" means the trustee, custodian, or insurance company that issues the IRA. Rollover and transfer contributions into Roth IRAs are documented on the Roth IRA Rollover and Transfer Contributions (Form 2414R).

## WHAT ARE THE RULES FOR MOVING MONEY FROM ONE TRADITIONAL IRA TO ANOTHER?

**Who Can Use a Direct Transfer?** You can direct transfer money from one traditional IRA to another if: (a) you are the original owner of the transferring IRA (check box 2), (b) you are the surviving spouse of the deceased original owner (check box 6), or (c) you are the former spouse of the original owner and the transfer is pursuant to the terms of a divorce decree or a written instrument (document) incident to the divorce (check box 2). A beneficiary of a traditional IRA owned by a deceased owner can also use a direct transfer to move money into a traditional IRA in the name of the deceased owner. Beneficiaries should not use this form to document a direct transfer into an IRA in the name of the deceased owner.

**How Do I Do a Direct Transfer?** You do this by instructing the fiduciary of the transferring traditional IRA to directly transfer the money to the fiduciary of the receiving IRA. You should set up the traditional IRA that will receive the direct transfer before you start the direct transfer. A direct transfer can be made without worrying about the once-a-year rule discussed below, and a direct transfer does not count as a rollover for purposes of applying the once-a-year rule to a later rollover.

**Who Can Use a Rollover?** You can use a rollover to move money from one traditional IRA to another if: (a) you are the original owner of the distributing IRA (check box 1), or (b) you are the surviving spouse of the deceased original owner (check box 5). The former spouse of the original owner cannot use a rollover.

**How Do I Do a Rollover?** You do this by withdrawing the money from one traditional IRA and contributing an amount not greater than the amount withdrawn to the same or a different traditional IRA. Two or more contributions can be made with respect to one withdrawal, but the total of the contributions cannot exceed the amount withdrawn. You can roll over a distribution only if you meet these tests:

- **Once-a-Year Rule.** An IRA distribution cannot generally be rolled over if any other distribution from the same IRA has been rolled over during the preceding 365 days (but see "First-Time Home Buyer Exception"). An IRA distribution also cannot be rolled over if the distributing IRA has received a rollover contribution from an IRA during the preceding 365 days.
- **60-Day Rule.** You generally must contribute the money to an IRA within 60 days after you receive the distribution. There are several exceptions to the 60-day rule, including delay due to insolvency or errors

of a financial institution, disasters, waiver by the IRS, and the 120-day rule discussed below. (See your tax advisor for more information.)

- **First-Time Home Buyer Exception.** If the first-time home buyer rules would apply except for the fact that there was a delay or cancellation of the home purchase, then you have until 120 days after you receive the withdrawal to contribute the money to a traditional IRA as a rollover. Such a rollover is not subject to the once-a-year rollover rule, and it is not treated as a rollover in applying this rule to subsequent rollovers.

**What If I Receive Property?** If you receive property in an IRA distribution, then the tax laws require you to contribute the property itself to your IRA. The tax rules for moving property are the same as those for moving money. Please check with us to see if we can accept a contribution of property before starting this type of transaction.

## WHAT ARE THE RULES FOR MOVING MONEY FROM A RETIREMENT PLAN TO AN IRA?

**Types of Plans.** Only money in a qualified retirement plan (QRP) can be moved to an IRA. A QRP is a plan that qualifies under Section 401 or 403 of the Internal Revenue Code (IRC) or a governmental plan that qualifies under Section 457 of the IRC. This includes most pension, profit-sharing, Keogh and stock-bonus plans maintained by employers. This also includes the Federal Thrift Savings Plan.

**Eligible Rollover Distributions.** Only an eligible rollover distribution can be moved to a traditional IRA. The QRP administrator is required to tell you whether a distribution meets this test. An eligible rollover distribution is a distribution that is not one of the following:

1. **One in a Series of Periodic Payments.** You cannot move a payment that is one of a series of substantially equal periodic payments that will last for:
  - Your lifetime or life expectancy;
  - The joint lifetime or life expectancy of you and your beneficiary; or
  - A period of 10 or more years.
2. **Required Minimum Distribution.** You cannot move a required minimum distribution (RMD) that you must receive from the plan under the tax laws.

**Who Can Use These Rules?** You can move money from a QRP to a traditional IRA if: (a) you are the employee who participated in the QRP, (b) you are the surviving spouse of a deceased employee, or (c) you are the former spouse of an employee and the transaction is pursuant to a qualified domestic relations order. Check box 3 or 4, depending on the type of transaction. The surviving spouse of a deceased employee can move money into a traditional IRA in the surviving spouse's name or into a traditional IRA in the name of the deceased employee. A death beneficiary other than the surviving spouse of the employee cannot move the money to an IRA. Money cannot be moved

from a QRP directly to a Roth IRA, although money can be moved from a QRP to a traditional IRA and then be subsequently moved from the traditional IRA to a Roth IRA.

**Direct Rollovers (Check Box 4).** If possible, we recommend that you use a direct rollover to move money from a QRP to a traditional IRA. You do this by instructing the administrator of the qualified retirement plan to make a direct rollover to your traditional IRA. In a direct rollover, the eligible rollover distribution is transferred directly from the QRP to your IRA. The income tax on a direct rollover to a traditional IRA is deferred until you withdraw the money from the IRA. This is the easiest and best way to move money from a QRP to a traditional IRA, because there is no tax withholding on this type of transaction. A QRP must offer you the direct rollover option.

**Rollovers (Check Box 3).** You can also receive an eligible rollover distribution and then roll over part or all of it to your IRA. The following rules apply to a rollover:

1. **60-Day Rule.** You must make the rollover contribution to the traditional IRA within 60 days after you receive the distribution from the QRP. (The 60-day period may be extended if the money cannot be withdrawn from a financial institution that is in financial trouble.)
2. **Mandatory 20% Federal Withholding.** The QRP administrator is required to withhold 20% of any eligible rollover distribution that is made to you. If you roll over only the amount that you receive, then the 20% that is withheld will be taxable income to you for the current year. You may roll over the entire eligible rollover distribution, but to do this, you would have to use money from some other source to replace the 20% that was withheld. Direct rollovers are a better approach because the mandatory 20% withholding does not apply to direct rollovers.
3. **Distribution of Property.** If you receive part or all of the distribution in the form of property, you can sell the property and roll over the sale proceeds. If you sell the property and roll over only part of the sale proceeds, then you should consult a tax advisor about your tax options. The tax laws also allow you to contribute the property you receive, but please check with us to see if we can accept a contribution of property before starting this type of transaction.
4. **Conduit IRA No Longer Required.** The tax laws now allow most money in most traditional IRAs to be moved to any type of QRP. It is no longer necessary to move QRP money to a conduit IRA in order to preserve the ability to move the money back into a QRP at a later date. An IRA owner born in 1935 or earlier may still benefit from using a conduit IRA, and you should consult a tax advisor if you are in this situation.