RETIREMENT

What Is an IRA Rollover?

If you leave a job or retire, you might want to transfer the money you've invested in one or more employer-sponsored retirement plans to an individual retirement account (IRA). An IRA rollover is an effective way to keep your money accumulating tax deferred.

Using an IRA rollover, you transfer your retirement savings to an account at a private institution of your choice, and you choose how you will invest the funds. To preserve the tax-deferred status of retirement savings, the funds must be deposited in the IRA within 60 days of withdrawal from an employer's plan. To avoid potential penalties and a 20% federal income tax withholding from your former employer, you should arrange for a direct, institution-to-institution transfer.

Previously, you were only able to roll over funds from an employer-sponsored plan to a traditional IRA. However, starting in 2008, direct rollovers to a Roth IRA will be allowed (of course, income limits apply to Roth IRA rollovers until 2010, when they are repealed, and ordinary income taxes are owed on all amounts rolled over to a Roth IRA).

An IRA can be tailored to your particular needs and goals and can incorporate a variety of investment vehicles, as opposed to the limited number of options available in many employer-sponsored retirement plans. In addition, tax-deferred retirement savings from multiple employers can later be consolidated.

Over time, IRA rollovers may make it easier to manage your retirement savings by consolidating your holdings in one place. This can help cut down on paperwork and give you greater control over the management of your retirement assets.

Distributions from traditional IRAs are taxed as ordinary income and may be subject to an additional 10% federal income tax penalty if taken prior to reaching age 59½. Just as with employer-sponsored retirement plans, you must begin taking required minimum distributions from a traditional IRA each year after you turn age 70½.*

Qualified distributions from a Roth IRA are free of federal income tax but may be subject to state, local, and alternative minimum taxes. To qualify for a tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first-time home purchase ($10,000 lifetime maximum). The mandatory distribution rules that apply to traditional IRAs do not apply to Roth IRAs.

The information in this article is not intended to be tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor.

*The Worker, Retiree, and Employer Recovery Act of 2008 suspends required minimum distributions for the 2009 tax year.