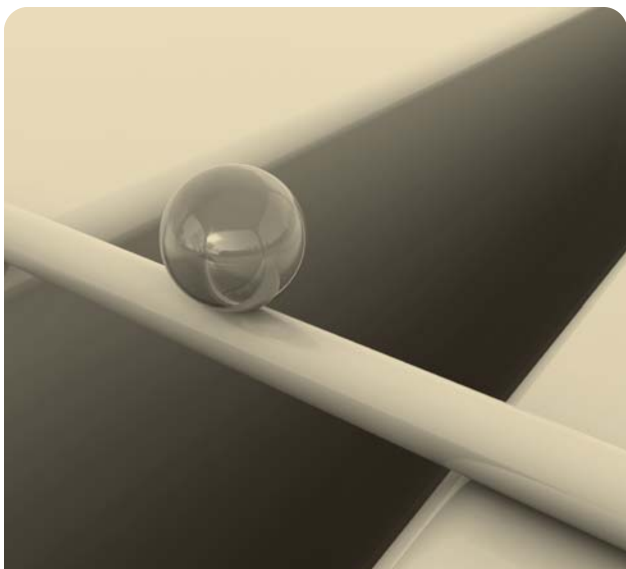

IRA Rollover

How to Avoid the Top Ten IRA Rollover Errors

To err is human, but when it comes to your money, little mistakes can cost a lot. That's especially true with Individual Retirement Accounts (IRAs). IRA laws are complex and ever-changing. Unforeseen taxes and penalties can run into millions of dollars. And once you make a mistake, it might not be possible to undo it. To avoid the potential catastrophes of going it alone, make sure to contact us. We can help you avoid these common IRA Rollover errors.

"To err is human"

Error 1

Leaving Assets in a Former Employer's Retirement Plan

When you leave an employer, you typically have the right to roll over your entire vested balance into an IRA. Three good reasons to do so are:

- You may gain access to a much wider array of investment options, allowing us to manage your assets more effectively.
- Your beneficiaries may be able to take distributions over their lifetimes, thus allowing for a longer period of tax deferral that could extend even after your death.
- You can avoid the 20% mandatory withholding for distributions if you roll over your retirement plan to an IRA.

We provide you with a single contact during the entire rollover process.

Error 2

Missing the 60-day Rollover Deadline

Are you familiar with IRS rules regarding an Indirect Rollover? After you receive your funds from an IRA, 401(k) or other Qualified Retirement Plan, you have 60 days to complete a rollover back to an IRA. You must replace the full amount including the 20% withheld by your Qualified Retirement Plan. If you do not complete the rollover within the time allowed, the amount would be treated as ordinary income in the IRS's eyes. That means you must state the amount as income on your tax return and have it taxed at your current ordinary income tax rate. In addition, if the distribution occurs before you turn age 59½, you may face a 10% penalty for early withdrawal.

The best way to avoid this error is to complete a direct trustee-to-trustee transfer of your rollover assets. However, if you choose an Indirect Rollover, don't take chances on overlooking the 60-day deadline. Rely on our advice to help you execute a rollover within IRS guidelines.

Error 3

Failing to Follow IRS Rule 72(t) When Taking Penalty-Free Early Withdrawals

Rule 72(t) is an Internal Revenue Service (IRS) rule that allows for penalty-free withdrawals from an IRA account. The rule requires that, in order for the withdrawals to be penalty-free, they must be taken as "substantially equal periodic payments" (SEPPs). The amount depends on the IRA owner's life expectancy calculated with various IRS-approved methods. Failing to calculate the proper amount and duration of the payments can lead the IRS to assess a 10% penalty on all amounts withdrawn.

You can benefit from our expertise as Retirement Specialists; our firm understands how this distribution option works and we can calculate and set up 72(t) payments based on IRS regulations.

Error 4

Making Spousal Rollover Errors

Although you are allowed to treat your deceased spouse's IRA as your own, or roll over your spouse's assets into your own IRA, you should look at all the options before deciding to do so. If you don't need the money or have a large estate and don't want the IRA assets to be taxed as part of the estate when you die, it may be more tax-efficient to disclaim the assets and allow them to pass to your spouse's contingent beneficiary.

We can help you indentify the best way to transfer your wealth while reducing taxes.

Error 5

Not Naming a Beneficiary

It may seem hard to believe, but overlooking something as simple as naming a beneficiary on a proper beneficiary form could cause the unnecessary loss of thousands, even millions from your estate. As an IRA owner, you are not required to name a beneficiary. However, failure to do so directly affects who will receive your IRA assets and the long-term value of the IRA payout after your death. In addition, not naming a beneficiary could result in an accelerated payment schedule upon your death, potentially increasing the tax burden on the distribution recipients.

If, when you die, your IRA does not have a named beneficiary, it will typically have to pass through to your estate. The estate may have to go through probate, which can be expensive. Even worse, the entire account balance may have to be distributed to the estate by the end of the fifth year after your death. This rapid payout may cause a large tax bill, plus the loss of future tax-deferred growth for your beneficiaries.

Completing beneficiary forms incorrectly can have a significant impact on your estate. We can make sure you avoid mistakes by reviewing all of your paperwork, including your beneficiary designation forms, before you start the rollover process.

Error 6

Not Updating Beneficiary Designations

You may have established your IRA several years ago. Have you updated your beneficiary designation as your circumstances changed? Just as you are not required, as an IRA owner, to name a beneficiary, you are not required to update beneficiary designations when life events—such as divorce, birth of a child, or death of a beneficiary—take place. But, failure to do so could mean that your retirement assets will go to the wrong people.

Helping you review your beneficiary designations on all of your accounts regularly is one way our firm adds value.

Error 7

Mishandling Transfers of Inherited IRAs to Non-Spousal Beneficiaries

Many people mistakenly assume that the 60-day rule for rollovers applies to non-spousal beneficiaries of IRAs. In fact, if you are a non-spousal beneficiary, your taking receipt of IRA assets incurs an immediate taxable distribution. If you intend to transfer the IRA assets directly to an Inherited IRA at another institution, you must do so in the form of a direct trustee-to-trustee transfer. There are also IRS rules that allow non-spousal beneficiaries to stretch out the required minimum distributions (RMDs) over a much longer period of time than the previous five-year maximum after the death of the IRA owner. This means that if you are a non-spousal beneficiary, you can inherit IRA assets and receive RMDs based on your own life expectancy.

To make sure you don't incur unnecessary taxes and to determine if stretching an Inherited IRA would be advantageous to you, contact us before you transfer any assets you inherit.

Error 8

Naming a Trust Rather Than a Spouse as Primary Beneficiary

If, like many IRA owners, you have a living or grantor trust, you can name it as the beneficiary of your IRA. But if you have a surviving spouse, that may not result in optimal distribution options. Here's why. The death distribution rules for trust beneficiaries are much more restrictive than those for spouse beneficiaries. A spouse beneficiary can move the IRA assets into his or her own personal IRA—and then can name his or her own beneficiaries—including naming a trust. As your IRA's beneficiary, your spouse can choose to move the IRA assets into an Inherited IRA and take death distributions based on his or her own life expectancy—an option that may not be available to a trust beneficiary.

Naming your spouse, your children or a trust as beneficiary can be a complex decision. By providing advice on your beneficiary options, we can help you transfer your wealth with tax efficiency.

Error 9

Depositing Rollover Assets Into the Wrong Account

The account you deposit your assets into must be eligible to receive rollover assets in order to maintain their tax deferral. Moving assets into the wrong type of account (i.e., Roth Assets to Traditional IRA, or a Traditional IRA to a Retail Account) can result in penalties and, in some cases, permanent loss of future tax deferral. The error may be eligible for correction as an exception to the 60-Day Rule by applying for an IRS private letter ruling. However, the private letter ruling process can take up to 9 months and cost as much as $3,000.

We will review all of your paperwork, oversee your transfer and direct your assets to the proper account so your money continues to grow tax-deferred.

Error 10

Missing a Net Unrealized Appreciation (NUA) Opportunity

By taking advantage of Net Unrealized Appreciation (NUA) rules, it may be possible to significantly decrease the taxes owed on highly appreciated company stock held in a company-sponsored retirement plan. NUA can allow you to remove all or some of your company stock when you roll over your plan into an IRA. How does NUA work? Your company stock is deposited into a taxable account (non-IRA), and your remaining 401(k) assets are transferred into an IRA. You pay taxes on the stock based on its original cost. The tax owed on the difference is paid when you sell your shares.

Contact us before you roll over your assets to determine if you can take advantage of this complex strategy. Once you roll over your assets, this tax-saving strategy is no longer available. Let us guide you through the NUA process.

We can help you avoid these and other common IRA Rollover errors.

Contact us for a consultation before you roll over.

Be Proactive in Seeking Advice

IRAs are the largest single asset owned by many Americans. Even small mistakes can prematurely cut off the tax-deferred growth of IRAs that may be worth millions and create huge income-tax bills for those who inherit.

If you are going to err, do so on the side of caution by seeking our advice before you roll over or transfer your assets.

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