Vorpahl Wing Securities, Inc.

FISCAL FITNESS

Vorpahl Wing Securities
421 W. Riverside Ave., Ste 1020
Spokane, WA 99201
509-590-7156

April 2015
Dennis Roginski
denniscr@vorpahlwing.com

Rule Change! IRA Rollovers

IRA Rollovers

An IRA rollover is when you withdraw money from your IRA and replace those funds back into another IRA within 60 days. When you do this, there are usually no taxes or penalties on the amount withdrawn.

Let's say funds from your company plan, such as a 401(k), are distributed to you and a check is made out in your name. You have 60 days to roll this money over into another IRA or into another company retirement plan (if allowed by the new company). If you fail to meet the 60-day time limit in either circumstance, you could be taxed and penalized on the entire distribution.

Old IRA Rollover Rule

Beginning in 2015, the rule for IRA rollovers changed. Let's say, under the old rule, you have two different IRAs. You withdraw all the money from one IRA in February and rollover those funds back into a different IRA with a different financial advisor within the 60-day time limit. This IRA cannot be rolled over again until February of the following year, a 12-month waiting period. In May, three months later, you withdraw all the funds from your second IRA and once again rollover those funds back into another IRA within 60 days. You must wait 12 months before rolling this IRA over again. The point is, under the old rule for rollover purposes, each IRA is treated separately.

New IRA Rollover Rule

Under the new rule you are limited to one IRA rollover per 12-month period no matter how many IRAs you own. So, in our example, if you do the rollover in February, you can't rollover your other IRA in May. You have to wait until the following February to do any more rollovers. Under the new rule, the IRS now treats those two IRAs as one for rollover purposes.

A Better Method

As a seasoned financial advisor, I understand situations arise where retirement money is needed prematurely: job loss, death of a spouse, income reduction, or a business start up.

I believe a better way to transfer retirement funds, whether it's from a company plan or another IRA, is to do what is called a trustee-to-trustee transfer. This is simply having your retirement funds transferred directly to another company (if allowed) or directly to another IRA. This way, you don't see that big check in your hand and be tempted to spend any of your retirement money. The funds go directly to the new plan or new IRA.

Even If You Need the Money

Even if you need the money, I believe it's still best to use the trustee-to-trustee method first. Unlike rollovers, there is no limit on the times you can do a trustee-to-trustee transfer. You can do one every 2 months if you like. Once the transfer is complete then take only the amount of money you need. You probably will be taxed on the amount withdrawn and you might have to pay a penalty for early withdrawal, but you aren't tempted to spend the whole wad. So unless absolutely necessary, don't use the rollover method. Be smart and stick with the trustee-to-trustee transfer.