Episode #305: Types of Transactions to Move Money from IRAs

Hello and welcome to another edition of Money Script Monday. My name is Sean Brady, and today's topic is the types of transactions to move money from IRAs. In preparing for your future retirement, you may have used an IRA to accumulate retirement savings, but at some point, you may wonder whether you should maintain your IRA as it currently is.

Whether you change jobs, quit or are laid off, retire, or simply want alternative choices for your retirement savings, you may consider moving your IRA to a different IRA, or maybe to a new employer's qualified plan, or to an annuity, or somewhere else entirely. But how and where you move those 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.

Now a transfer is 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, Simple IRAs, and Set IRAs. With the transfer of the IRA, the owner does not receive access to the funds. Transfers are not reported to the IRS and they are not taxable when the entire amount is transferred because assets were never made payable or distributed to the taxpayer. There's no income tax withholding and no limits on the number of transfers you can make.

Now, rollovers, they're a bit more flexible. You can move retirement funds from one financial institution to another using rollover. Or you could also move retirement funds from the financial institution to you the owner, and then again to another financial institution. Now, depending on who is involved in that movement and that movement of funds, a rollover can either be a direct rollover or it can be an indirect rollover.

A direct rollover is when funds are generally moving from different plan types, so moving your assets from an IRA directly into an employer-sponsored plan such as a 401K, 403B, or a governmental 457B plan would be called a direct rollover. A direct rollover is different from a transfer because it does not involve moving funds between 2 IRAs, but like a transfer with a direct rollover, the funds were never made payable to you or distributed to you the taxpayer.

An indirect rollover is when funds move from a financial institution to the IRA owner and they and then they move it to another financial institution. 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 it to another financial institution. So if you choose to take a distribution from your IRA using this method, you can have access to the funds up to 60 days before you deposit the funds into a new qualified plan or a new IRA.

Now, if the indirect rollover is completed within 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's a withholding, the withheld amount is subject to income tax unless the IRA owner rolls over the withheld amount using other funds.

It's also really 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, required minimum distributions or RMDs are not eligible to be rolled over.

Now, understanding the differences among transfers, direct rollovers, and indirect rollovers is essential to minimizing the potential for errors and unintended consequences. As always, if you have any questions, speak with your financial advisor today to address any considerations regarding your IRA money. Thank you, and we'll see you again next time on Monday Script Monday.