

Prism's Top 10 IRA Rollover Mistakes

1. IRA-to-IRA Rollovers and Roth IRA-to-Roth IRA Rollovers

Mistakes:

- Using 60-day IRA rollovers instead of using transfers to move IRA funds
- Once-per-year rule is for all IRAs and Roth IRAs
- IRS has no authority to correct these
- New client rollover mistakes – not asking about prior rollovers
- Not knowing the exceptions to the once-per-year IRA rollover rule

2. Non-Spouse Rollovers are NOT Permitted

Mistakes:

- Non-spouse beneficiary cannot do a rollover
- Taking a lump-sum distribution
- Putting a decedent's IRA funds into your own IRA
- Paying out the entire IRA to a trust beneficiary

3. Spousal Rollovers

Mistakes:

- Spousal rollover before age 59 1/2
- Forgetting to do the spousal rollover at age 59 1/2
- Not naming a successor beneficiary of the inherited IRA

4. 401(k) Rollovers to IRAs Mistakes:

- Not reviewing all options (IRA rollover is not the only option.)
- Receiving a distribution personally and being subject to 20% withholding
- Not knowing the creditor protection of IRAs in your state
- Not first asking about the NUA (net unrealized appreciation) tax break
- Rolling over highly appreciated company stock to an IRA
- Not allocating the after-tax portion(basis) to a Roth IRA tax free

5. After-Tax Rollovers From Plans to IRAs and Roth IRAs

Mistakes:

- Not being aware of the allocation rules that allow the tax-free Roth conversion of after-tax plan funds
- Failing to allocate pre-tax and after-tax amounts to the correct account
- Taking only after-tax funds out for tax-free Roth conversions (generally won't work)
- Rolling over all funds to a traditional IRA (rules do not apply to IRA distributions)
- Choosing to receive all funds personally

6. Roth Conversions (Technically IRA-to-Roth Rollovers)

Mistakes:

- Not advising on the income impact of a Roth conversions (other taxes may be triggered or tax benefits lost)
- RMDs (required minimum distributions) cannot be converted
- Choosing to receive all funds personally
- SIMPLE IRA cannot be converted until after 2 years
- Inherited IRAs cannot be converted, but
- inherited company plan funds can

7. In-Plan Roth Rollovers (401(k) to Roth 401(k) Conversions)

Mistakes:

- Not asking if in-plan conversions are available in the plan
- Not estimating the taxes due on the conversion
- Not checking first if a Roth IRA conversion is available

8. Rollovers to Any Retirement Account (60-Day Rule)

Mistakes:

- Losing track of the 60-day deadline
- Not knowing about the 20% mandatory withholding from plans
- Not knowing about the self-certification procedures for late rollovers
- Depositing the funds into a non-IRA account
- Choosing a 60-day rollover instead of a transfer

9. QDRO Rollovers in Divorce (From Plans Only) to Ex-Spouse as Alternate Payee

Mistakes:

- Rolling over all of a qualified domestic relations order (QDRO) distribution to an IRA and then taking an IRA distribution before age 59 1/2
- Remember! A QDRO distribution is a 10% penalty exception, but only on distributions from the plans!
- Not knowing that an IRA rollover voids the 10% penalty exception
- Not knowing that QDROs do not apply to IRAs

10. Rollovers From IRAs Back to Plans

Mistakes

- Rolling over basis into the company plan
- Only pre-tax funds can be rolled to the plan
- Failing to convert remaining IRA basis to a Roth IRA
- Not asking if your plan accepts IRA
- Rollovers
- Not first checking plan restrictions on accessing funds (Funds are now subject to plan rules.)



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