WHEN A “REVERSE ROLLOVER” MAKES SENSE

Monday, February 22, 2021

By Ian Berger, JD
IRA Analyst
Follow Us on Twitter: @theslottreport

When we think of rollovers, we normally think of moving funds *from* a 401(k) (or other company plan) to an IRA. But it sometimes makes sense to consider a “*reverse rollover*” – from an IRA to a 401(k).

Unfortunately, although 401(k) plans are required to allow rollovers out of the plan, they do not have to permit rollovers into the plan. So, before withdrawing from your IRA, check with your plan administrator to make sure you can do a reverse rollover. Also, you can’t do a reverse rollover of Roth IRA or after-tax (non-deductible) IRA monies. Only pre-tax IRA funds qualify.

Despite these hurdles, there are still several good reasons to consider a reverse rollover:

- If you work past age 72, RMDs (required minimum distributions) are often not required from 401(k)s until you leave your job. (This “still-working exception” is only available if the plan allows and if you do not own more than 5% of the company sponsoring the plan.) RMDs from traditional IRAs are required at age 72 - *regardless of your job status*.

- If you leave your job in the year you reach age 55 or later, you can receive a plan payout without being hit with the 10% early distribution penalty. With a traditional IRA, you usually have to delay your payout until age 59 ½ to dodge the penalty.

- Depending on your state’s laws, you may be better protected from creditors if your retirement savings are in a company plan rather than in an IRA.

- While you can take a loan from your workplace plan (if the plan allows), loans are not available from your IRA

- If you're considering converting a traditional nondeductible IRA contribution to a Roth IRA (a "back-door" conversion), a portion of the converted amount may be taxable unless you rid yourself of any pre-tax IRA dollars. You may be able to do this through a reverse rollover.

Before pulling the trigger on a reverse rollover, consider these reasons to keep your money in an IRA:

- You can access your IRA savings at any time for any reason. By contrast, plan payouts can be made only upon certain events (e.g., leaving your job, becoming disabled or incurring a financial hardship).

- Several of the exceptions to the 10% penalty (e.g., higher education expenses and first-time home purchases) are available for IRA distributions, but not for 401(k) distributions.

- You typically have many more investment options for your IRA funds. In a plan, you are limited to the investments allowed by the plan.

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