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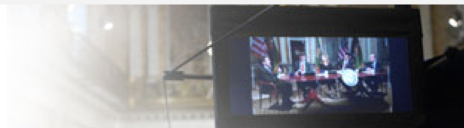


Treasury And IRS Issue Guidance Facilitating Tax-Free Rollovers To Employer-Sponsored Retirement Plans

4/3/2014

Ruling Facilitates Pension Portability

Today, the U.S. Department of the Treasury and the Internal Revenue Service (IRS) issued guidance designed to help individuals accumulate and consolidate retirement savings by facilitating the transfer of savings from one retirement plan to another. This guidance will increase pension portability by making it easier for employees changing jobs to move assets to their new employers' retirement plans.

"All too often, individuals moving from one job to another find it too difficult to take their retirement plan savings with them to a new employer," said Senior Advisor to the Secretary and Deputy Assistant Secretary for Retirement and Health Policy J. Mark Iwry. "This guidance is designed to make it easier for people to roll over their retirement savings to a new employer plan when they change jobs, helping them preserve and accumulate assets for retirement."

Today's ruling simplifies the rollover process by introducing an easy way for a receiving plan to confirm the sending plan's tax-qualified status. The plan administrator for the receiving plan can now simply check a recent annual report filing for the sending plan on a database that is readily available to the public online. This eliminates the need for the two plans to communicate (with the individual as go-between), expedites the rollover process, and reduces associated paperwork.

Facilitating tax-free rollovers to qualified pension, 401(k)s, or other retirement plans can be an important way to help American workers prepare for retirement:

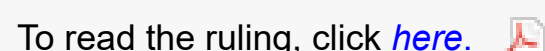
- **Portability and Consolidation**. Improving the portability of tax-favored savings contributes to retirement security by making it easier for savers to resist the temptation to take a lump-sum cash payout and spend relatively small accumulations when changing jobs. Experience and data suggest that preservation of savings is generally correlated with the amount of savings. When an individual's accumulated savings are modest, as they might be from a particular employer's plan, the amount may not seem large enough to add significantly to the individual's retirement security – so the individual tends to spend. However, when relatively modest amounts are carried forward and combined with additional savings that continue to accumulate with each successive job – with tax-deferred earnings – it is easier to reach a critical savings mass, where the balance tips from dissipation to preservation of assets.

- **Management and expenses**. Consolidated savings can be easier and more efficient to manage pursuant to a coherent investment strategy. Dispersion of an individual's savings – especially smaller amounts – among various employer plans can, over time, create a risk that the individual will lose sight of one or more of the old accounts. This can occur, for example, as companies undergo corporate transitions and name changes due to mergers, acquisitions, and other transactions, and as individuals change names, move, and experience other transitions. Consolidation through rollovers can help minimize this risk. Also, maintaining fewer accounts usually results in fewer account fees; and financial institutions may charge less to manage balances that are larger after consolidation.

Today's ruling also reminds plan administrators that the conduit individual retirement account (IRA) requirements – which allowed an IRA to be rolled over to an employer-sponsored qualified plan from an IRA only if the IRA was funded solely with rollover distributions from another employer-sponsored plan – no longer apply, and illustrates how a receiving plan administrator can readily conclude that a transfer from an IRA is a valid rollover.

Background

The law allows a tax-free transfer of savings, generally referred to as a "rollover," to a new employer's plan. However, the receiving plan must protect its tax-qualified status by determining that the source of the funds – the former employer's plan – is also tax-qualified and that the incoming transfer complies with applicable rules. This can pose a practical impediment to completion of the rollover, as the receiving plan may require individuals to obtain a letter or other paperwork from the sending plan, and neither plan may have a strong incentive to streamline the rollover process. Savers are often required to jump through a series of hoops, and many ultimately give up in frustration. In these circumstances, it can be simpler and faster for an individual to just take a payout of the funds rather than to continue saving them by rolling them over to the new employer's plan. The result is more "leakage" of savings from the retirement system and less financial security for individuals in retirement.

To read the ruling, click *here*. 

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