NAGDCA NOTES

Retirement Plan Portability and Rollovers: Increasing Flexibility for Public Employees

The passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001 greatly enhanced retirement plan portability by expanding rollover options for government employees beginning January 1, 2002. This overview offers a quick reference of the key information about rollovers.

There are two types of rollovers: 1) direct (funds are paid directly to another eligible plan) and 2) indirect (the employee who is eligible for the rollover distribution accepts the distribution personally, and then has 60 days after receiving the distribution to transfer the funds to an eligible retirement plan that allows rollovers. Exceptions for this 60-day rule may be made in cases of death, disaster, or other events that the recipient cannot control. A 20% withholding rule applies for all indirect rollovers). Any distribution from a retirement plan that is not a noted exception (see below) can be rolled over into one of the following plan types. Rollovers are permitted to and from:

- Qualified plans
- 403(b) plans
- Governmental 457(b) plans
- IRAs

Both the distributing and receiving plans must permit rollovers. Plans are not required to accept rollovers by EGTRRA or the regulations governing each type of plan; the decision to accept rollovers is left to plan administrators. Employers who allow rollovers are required to provide employees with a written notice outlining the rules for rollover transactions.

Exceptions that cannot be rolled over are:

- Any distribution that is one of a series of substantially equal periodic payments (such as an annuity payment)
- A Minimum distribution
- A Hardship distribution
- After-tax contributions from a qualified plan can be rolled over to an IRA or eligible qualified defined contribution plans --- but not to or from 457 or 403(b) plans.

Employees and surviving spouses are eligible to choose rollover options, but there must be a qualifying event in order to rollover funds from one plan to another, such as:

- Retirement
- Severance from employment
- Disability
- Death

An important feature for plan administrators to keep in mind is that any plan that forces participants to take a distribution at separation of service must provide that a distribution that is less than $5,000 but more than $1,000 will automatically be rolled over into an IRA selected by the employer, unless the participant elects to have the distribution paid directly to another IRA. The plan must provide notice that an involuntary transfer to an employer-designated IRA is possible in this situation.

While these new rollover provisions do increase administrative complexity, the enhancement in portability of retirement assets is a worthwhile accomplishment. Plan administrators and researchers repeatedly find that employees are more likely to participate in retirement plans that offer flexibility. The new portability provisions introduced with EGTRRA effectively offer flexibility for public employees when it comes to saving for retirement.

For additional information about rollovers, including the impact of EGTRRA on the purchase of service credits, refer to NAGDCA's Guidebook Chapter on EGTRRA (now available on-line at www.nagdca.org). You may also contact NAGDCA's Senior Project Coordinator, Gina Vessels, at 859-514-9161 or via e-mail at gvessels@amrinc.net.

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