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Doing the Opposite: All About Reverse Rollovers

In a classic *Seinfeld* episode, long-suffering George Costanza, unemployed and living with his parents, decides that none of his life decisions are working out for him. So, he decides to start acting the "opposite" of how he normally would act. And, lo and behold, he asks out a beautiful girl (who readily accepts) and lands a plum job with the New York Yankees front office (despite criticizing the team's owner during his job interview).

So it is with rollovers between company retirement plans and IRAs. An advisor's natural inclination is to recommend that the client roll over company plan funds to an IRA. Sometimes, however, the opposite – a "reverse rollover" from an IRA to a company plan – might make better sense for your client.

How Reverse Rollovers Work

Are reverse rollovers required? Most company plans are required to allow employees to make a direct rollover of outgoing plan distributions to IRAs.

However, there is no similar requirement for company plans to accept incoming IRA rollovers. Reverse rollovers add extra administrative complexity that many employers (especially smaller ones) are unwilling to undertake.

Indeed, a 2014 survey by the Plan Sponsor Council of America found that over 30% of 401(k) plans do not accept incoming rollovers. *Thus, before advising a client to do a reverse rollover, advisors should check the plan document to make sure it is allowed.*

What Can Be Rolled Over? Even if a plan accepts IRA rollovers, only pre-tax traditional IRA funds are eligible to be rolled over to a company plan. After-tax funds in an IRA are not eligible for rollover. The tax code also does not allow rollovers of Roth IRA funds – *even to a Roth 401(k).*

Who Is Eligible? If the plan allows incoming rollovers, it may limit them to active plan participants and might not make them available to inactive plan participants (i.e., former employees who have opted to keep their benefits in the plan). *Here again, advisors need to look at the plan document.*

How Are They Made? Reverse rollovers are made the same way as plan-to-IRA rollovers are made – *either through a direct rollover or a 60-day rollover.* In a direct rollover, the IRA custodian directly transfers the IRA distribution to the company plan trustee. In a 60-day rollover, the IRA custodian sends a check to the IRA owner, made payable to

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