How to Roll Over An IRA : The Indirect Method

You are limited to one indirect rollover per year. If this is the right choice for you, here's how to do it.

Ready to roll over to a Betterment IRA? We use the direct IRA transfer method, where your funds are moved directly from your old provider to Betterment. We have automated the process so you can get started in less than 60 seconds. This is our preferred method for IRA-to-IRA transfers. (If you need to learn more about 401(k) rollovers, you can read more here.)

You also have the option to do a so-called indirect rollover. In this process, described below, funds from your IRA are moved from your old provider through your own checking account, and you must manually deposit the funds into Betterment yourself within 60 days after receiving the funds (or you may face tax penalties). You are limited to one indirect rollover per year, according to 2015 IRA guidelines.

Important to note: Under the 2015 IRS guidelines, a second IRA-to-IRA rollover in a single year could result in income tax becoming due on the rollover, a 10% early withdrawal penalty, and a 6% per year excess contributions tax, as long as that rollover remains in the IRA.

Here's a step-by-step guide to complete an indirect rollover.

1. Contact your IRA provider.

You can do this by phone or online, whichever is easier for you. (See specific tips below for rolling over an old or dormant IRA.)

- If you're transferring the funds electronically from your IRA to your bank account, you can often complete the transaction quickly online. If you talk to a representative, he or she can either help you set up the transfer or arrange for a paper check to be sent to you. BUT…
- If you're speaking to a live person, he or she will likely offer incentives to keep your business, and/or warn you that doing a rollover this way will result in taxes and penalties. This isn't true if the rules are met, as indirect rollovers are an accepted transfer method, detailed in IRS Publication 590.

If they say…	You can say…
This is an early distribution, are you aware of that?	Yes, but I'll avoid any risks by depositing my money within 60 days.
We'll be withholding X% of your funds, if you do an indirect rollover/early distribution.	I don't need any withholding, as I'll be depositing my money within 60 days.
You might have to pay taxes or a penalty.	I won't incur taxes or a penalty if I deposit the money in my IRA within 60 days. This is the only rollover I'll do this year.
If you want to do a rollover, please contact the receiving institution–they will send the paperwork.	I don't need to fill out paperwork to do an indirect rollover, actually.

2. Set up the withdrawal.

To do a rollover, you can withdraw all the funds and close the account, or you can do a partial transfer.

Your provider will likely refer to this as an "early distribution" or "premature withdrawal" if you're under 59½, but this does NOT mean you'll get hit with taxes and penalties. It's simply the IRS terminology for a distribution before age 59½.

3. Use the right account.

To keep things simple, you can either have your old provider directly deposit these funds into the bank account you have linked to Betterment, or simply deposit the check your provider sends you into that linked account within 60 days, per IRS rules.

What if you want to do an electronic funds transfer, but you have an old bank account linked to your old IRA?

A) You can move the funds to that account and then transfer the money to the account linked to Betterment, then complete the rollover.

B) You may be able to link your Betterment-linked account to your old provider, then move the funds and complete your rollover. (Note that this could be time-consuming, if the company requires further account verification.)

4. Don't withhold taxes.

Whether you do the rollover electronically or with a live representative, you need to inform your IRA provider that you do not want any taxes withheld. You are not required to withhold taxes, as you're going to redeposit the funds as soon as you get them (within 60 days, per IRA rules).

5. Mind the fees.

Some companies may charge you a transaction fee to liquidate your account, a surcharge if you close the account, or a fee for sending a paper check. Be sure to ask (or read the FAQ) so that you know what you're paying. These costs typically apply when you do any sort of rollover—think of them as a fond farewell from your old provider.

6. Claim the rollover on your tax form.

Your old provider will alert the IRS that you've withdrawn funds from your IRA, which is standard procedure, so be sure to enter the amount on your return at tax time. Consult with a tax advisor, if you have any doubts about how to do this, or familiarize yourself with the applicable rules in IRS Publication 590.

7. Remember the 12-month rule.

If you choose to do an indirect rollover into an IRA, but later want to withdraw that money, you would have to wait a year to avoid penalties.

8. Expect the unexpected.

You may have to deal with loose ends, whether that's an extra dividend check that might be taxable; a hold on your account while a provider verifies your information; a complication regarding a change of name (if you're recently married, say), or some other curveball. Or, it could all go smoothly.

Tips for Rolling Over an Old Account

As you change jobs and move around, it's easy to lose track of old accounts. If you're doing a rollover from a dormant account, bear in mind the following:

- Be prepared for a longer verification process, especially if you need to supply a new street or email address or phone number.
- Make sure the bank account linked to this old IRA is still current. You may need to link a new bank account to this IRA if you want to do an electronic funds transfer.

- We prefer the direct transfer method. We have automated the process so that it can take 60 seconds or less to get it started. You can learn more here.

Betterment is not a tax advisor. Individual circumstances may vary, and the above should not be construed as tax advice. Always consult your tax advisor.