



What is a rollover IRA, and do I need one?

Generally, the term "rollover IRA" refers to an IRA that you establish to receive funds from an employer retirement plan like a 401(k). A rollover IRA is also sometimes referred to as a "conduit IRA."

When you roll funds over from an employer plan to an IRA, your financial institution may suggest that you use a rollover IRA to receive the funds. Of course, you can transfer those dollars to any other IRA you own at some future date, because there's no legal requirement that you keep your plan distribution in a separate IRA. But even though separate IRAs are not legally required, there are at least two reasons to consider keeping your employer plan rollover separate from your contributory IRAs.

The first reason to maintain a separate rollover IRA deals with federal bankruptcy law. Your IRAs are protected from your creditors under federal law if you declare bankruptcy, but this protection is currently limited to \$1.36 million for all your IRAs.¹ The \$1.36 million limit doesn't apply, though, to amounts you roll over to an IRA from an employer plan, or any earnings on that rollover. These dollars are protected in full if you declare bankruptcy, just as they would have been in your employer's plan. Obviously, it's easier to track the amount rolled over, and any future earnings, if you keep those dollars separate from your contributory IRAs. So a rollover IRA may make sense if creditor protection is important to you.

The second reason to maintain a rollover IRA is that you might decide in the future that you want to roll your distribution back into a new employer's plan. In the distant past, employer plans could accept rollovers only from rollover (conduit) IRAs — rollovers from contributory IRAs weren't permitted. Now, however, employer plans can accept rollovers from both contributory IRAs and rollover IRAs.² Despite this, employer plans aren't required to accept rollovers, and they can limit the types of contributions

they'll accept. And while it's becoming less common, some still accept rollovers only from rollover IRAs. So keep this in mind if you are contemplating a rollover back to an employer plan in the future.

¹SEP and SIMPLE IRAs have unlimited protection under federal bankruptcy law. This amount is scheduled to increase in April 2022.

²Nontaxable traditional IRA dollars can't be rolled back into an employer plan.