

Charging a Fee For a Direct Rollover of IRA Funds to a 401(k) Plan

A financial institution should consider instituting a fee if it agrees to directly rollover a customer's IRA funds to his or her account within an employer's 401(k) or 403(b) as discussed in the following email situation/question. It is only logical and right that a financial institution receive a reasonable fee for helping a customer when it agrees to issue a check directly to the 401(k) plan. You are helping your customer and also the 401(k) plan.

Technically, a direct rollover cannot occur between an IRA and a 401(k) plan as the law defines a direct rollover as only being between an employer sponsored plan and an IRA. But the IRS has adopted the rule that the reporting rules applying to a direct rollover from a 401(k) plan to an IRA are also to be used if the funds move from an IRA to a 401(k) plan.

The email question/situation:

Question regarding an IRA rollover from our bank to the customer's 403b retirement plan. Assume the best is to issue a check directly to the customer and code the 1099-R as a G code? The customer will have to sign an IRA distribution form?

Please let me know if this is correct?, I have not had a request like this before, it is usually the reverse from a retirement plan into an IRA at the bank. Thanks so much for your help!

CWF's answer/response:

The easiest approach for the bank is to issue the check to her and you would use code 1 if she is under age 59½ and 7 if she is over age 59½. You treat it as a normal distribution. Then she makes a rollover contribution to the plan.

The tax code does not require an IRA custodian to issue the check to the plan. However, many plans require the check to come from the IRA issued to the plan since this simplifies the plan administrator's administrative concerns regarding accepting a rollover contribution.

If your institution decides to be nice and accommodate your customer, you will issue the check to ABC 401(k) Plan fbo Jane Doe. Use CWF's Form 69 or a similar form as prepared by the plan administrator. And then you would use the reason code G in box 7 of the Form 1099-R. When G is used box 2, taxable amount, is to be completed with 0.00 as you know the amount the is non-taxable as you sent the funds directly to the plan. As you indicated it is the reverse of a direct rollover coming from a pension plan to an IRA.

An IRA custodian may have a fee for this special service as long as it has been disclosed. Like with transfer fees, we expect many customers would be willing to pay a fee for this special service.