Plan Sponsor Voice
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Fact Sheet – 457 Rollovers and Transfers

As a result of the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA), participants are now allowed to roll or transfer dollars from one plan type into another and maintain the tax deferred status on these assets. This Fact Sheet discusses the difference between rollovers and transfers and the rules and regulations regarding this activity.

Three Different Types of Transfers and Rollovers

Transfers are the non-taxable movement of assets from one plan trustee to another. Plan-to-plan transfers and exchanges are different types of transfers that can only occur between eligible 457 governmental plans or from one eligible 457 plan to a qualified governmental defined benefit plan for purchase of permissive service credits.

- ✓ Plan-to-plan transfers between 457 plans of different governmental employers can only occur when the participant has had a severance from employment with the transferring employer and is performing services for the entity maintaining the receiving plan. Assets that are transferred can be commingled with the receiving plan's assets, or maintained in a separate account.
- ✓ Plan-to-plan transfers for permissive service credit purchases from an eligible 457 plan can only be made to a governmental defined benefit plan. The transfer can be made at anytime and the participant does not need to be eligible for a distribution.
- ✓ Exchanges between 457 plan providers of the same employer can occur at anytime and the participant does not need to be eligible to receive a distribution. In this situation, all 457 plans of the employer are considered a single plan and assets transferred into an account with another provider are commingled. A separate 457 account is not established.

Direct rollovers (or trustee-to-trustee transfers) are transfers of assets from eligible governmental plans to an IRA or another eligible retirement plan at the time the participant, beneficiary or alternate payee is eligible to receive a distribution. The directed rollover made directly to the receiving plan or IRA and is not includible in the gross income of this individual in the year transferred. The 20% federal tax withholding does not apply.

- ✓ Eligible plans for direct rollover dollars (either into or out of) are: other governmental 457(b) plans (not tax-exempt employers), 403(b), 401(k), 401(a) defined contribution plans (including Keoghs), and IRAs (including SEP and SIMPLE).
- ✓ Dollars from other plan types and IRAs that are rolled into an eligible 457 plan must be maintained and tracked in a separate account. The rules of the transmitting plan, such as the early withdrawal penalty, will continue to apply to this rolled-in account.
- ✓ Dollars rolled out of a 457 plan into other eligible plans and IRAs are combined into the receiving plan account. These rolled in assets take on the features of the receiving plan (e.g., they lose their exemption to the early withdrawal tax penalty).

Rollovers are transfers of assets that a participant, beneficiary or alternate payee receives as a distribution from an eligible retirement plan or IRA, into other eligible plans or IRAs. The individual must make the transfer within 60 days of receiving the cash distribution to retain the tax deferred status on these assets. The 20% federal tax withholding applies to the distribution that the individual receives and, if they desire to roll 100% of the amount distributed, the portion of the account balance withheld for taxes must come from other sources of income or savings.

- ✓ Eligible plans for direct rollover dollars (either into or out of) are: other governmental 457(b) plans (not tax-exempt employers), 403(b), 401(k), 401(a) defined contribution plans (including Keoghs), and IRAs (including SEP and SIMPLE).
- ✓ Dollars from other plan types and IRAs that are rolled into an eligible 457 plan must be maintained and tracked in a separate account. The rules of the transmitting plan, such as the early withdrawal penalty, will continue to apply to this rolled-in account.
- ✓ Dollars rolled out of a 457 plan into other eligible plans and IRAs are combined into the receiving plan account. These rolled in assets take on the features of the receiving plan (e.g., they lose their exemption to the early withdrawal tax penalty).

Anytime Distribution Rule

IRS Revenue Ruling 2004-12 issued in 2004 clarified that amounts rolled into a 457 plan from other eligible plans or IRAs can be distributed at anytime without the participant experiencing a distributable event, such as termination of employment or retirement. This anytime distribution, however, can only be allowed for dollars that have been accounted for in a separate roll-in account and the 457 plan document must be amended to authorize this activity. Plan-to-plan transfers that have occurred between 457 plan providers of the same employer are not tracked in a separate account and cannot be distributed under this anytime distribution rule.

Frequently Asked Questions

1. If dollars are transferred from a governmental 457 plan from one employer into another 457 governmental plan with a different employer, does the receiving plan have to maintain these assets in a separate account?

   No. There is no requirement that 457 plans accept transfers, or maintain separate accounts for transferred in assets from other 457 accounts. However, if separate accounts are not established for these assets, they cannot be distributed to the participant under the "anytime" distribution rule noted above.

2. Are 457 plans required to accept transfers and rollovers into their plan and/or allow dollars to be transferred or rolled out?

   Governmental 457 plans must permit rollovers out of their plan, but are not required to accept roll-in dollars. In regard to transfers, 457 plans can restrict or prohibit in-service transfers between 457 plan providers of the same employer, or transfers for permissive service credits. Rule of thumb – if the individual is eligible to receive a distribution of their 457 assets, they must be able to execute a transfer or rollover.

3. If a 457 plan allows dollars to be rolled in from other plan types, what are the requirements on these rolled in assets?

   Assets rolled into a 457 plan from an IRA or other eligible plan must be maintained and tracked in a separate account. Investment earnings that accrue on these assets must also be held in this separate account. The rules of the transmitting plan continue to apply, including the 10% early withdrawal penalty. The 457 plan can allow distribution of these assets without a distributable event (termination, retirement, death) if the plan document has been amended to permit this.