
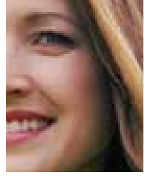

Financial Issues

CEFCU® Investment Services and Wealth Management Spring 2015

IRS Announces New IRA Rollover Limitation

A tax court ruling leads to a decision that may affect you.

What was once allowed is now prohibited. Back in 2008, esteemed tax attorney Alvan Bobrow and his wife made a series of withdrawals and rollovers among contributory IRAs, rollover IRAs and non-IRA investment accounts, effectively treating themselves to interest-free loans. They believed this was permissible, but in January 2014, a U.S. Tax Court judge ruled otherwise.[1]

Publication 590 has long stated that a taxpayer can generally only make one tax-free rollover of any part of a distribution from a single IRA to another IRA during a 12-month period. That didn't prevent a taxpayer from making multiple IRA-to-IRA rollovers using multiple IRAs during that timeframe.[1,4]

As a result of the tax judge's ruling, the IRS tightened IRA rollover rules.[1,2] Beginning in 2015, you can only make a tax-free IRA-to-IRA rollover if you *haven't made one within the past 365 days*. This restriction applies to all IRAs maintained by a taxpayer, and the tactic of making multiple IRA-to-IRA tax-free rollovers during a 12-month period is no longer allowed.[3,4]

Don't worry just yet. If you want to move money between IRAs more than once in 2015 there is still a way you can do it. The new IRS rule change doesn't apply to every type of IRA "rollover."

When you read about "IRA rollovers," the term may refer to IRA-to-IRA rollovers, distributions from a workplace retirement plan going into an IRA, or a trustee-to-trustee transfer of IRA assets between financial firms in which the taxpayer never handles the money.

Here's the good news. IRS Announcement 2014–15 states: "These actions by the IRS will not affect the ability of an IRA owner to transfer funds from one IRA trustee directly to another, because such a transfer

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Our advisors can help you with *all* of your financial planning!

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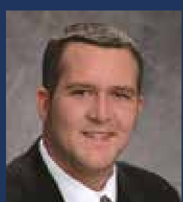

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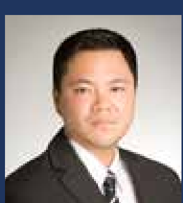

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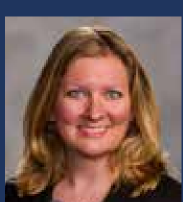

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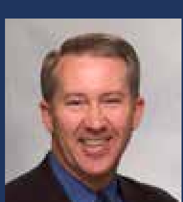

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is not a rollover and, therefore, is not subject to the one-rollover-per-year limitation of § 408(d)(3)(B)."[3] In other words... *the new restriction does not apply to trustee-to-trustee transfers.*

Some transition relief is also available: the IRS won't apply the new limitation to any rollover involving an IRA distribution that happened prior to January 1, 2015.[4]

Some important questions still need answers. Some taxpayers own both traditional and Roth IRAs; will they be allowed to take one distribution from their traditional IRA with the intention of a tax-free rollover and another distribution from their Roth IRA pursuant to a tax-free rollover within the same 12-month period? Could an IRA owner and his/her tax planner argue that a succession of linked IRA distributions pursuant to a single outcome essentially amount to a single distribution?[4]

It is possible that further guidance from the IRS may emerge. Regardless of whether it does or not, IRA-to-IRA rollovers will be scrutinized more closely.

So how does this ruling affect *your* investment strategy? To evaluate your investment portfolio, consider talking with a Financial Advisor from CEFCU Investment Services. Representatives can meet with you at most CEFCU Member Centers, or you can schedule a phone appointment.

Best of all, our advisors work on a salary, so you can rest easy knowing there's no financial incentive to guide you to products or investments that are not in *your* best interest. To schedule a no-cost, no-obligation appointment with a CEFCU Investment Services Representative, call 309.633.2571 or 1.800.356.7865, ext 32571.

Citations.

1–wealthmanagement.com/retirement-planning/seeing-double [2/4/14]

2–marketwatch.com/story/new-ira-rollover-rule-coming-in-2015-2014-04-04 [4/4/14]

3–irs.gov/pub/irs-drop/a-14-15.pdf [4/16/14]

4–tinyurl.com/lnd86vs [4/24/14]

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When Interest Rates Rise

Interest rates have been at historic lows for several years now; but eventually, rates will begin to rise. While some areas of the economy benefit from rising interest rates, fixed-income investments, such as bonds, typically *don't* fare well. If, like many investors, you have chosen bonds to reduce your portfolio's volatility, a rising-rate environment may prompt you to revisit your fixed-income exposure.

Determine Your Exposure

The first step in determining whether changes to your portfolio are warranted is to review the fixed-income investments you currently own. Reviewing the types of bonds you're holding and their durations can help you assess your portfolio's vulnerability in a rising interest rate environment.

Duration is a measure of a bond's sensitivity to interest-rate movements — the longer the duration of a bond, the more sensitive it will be to rate changes. This measurement is calculated using variables including time to maturity, and can help you compare bonds with different coupon rates and maturities.

Longer Term, Greater Losses

When interest rates are rising, the prices of long-term bonds are affected most. Investors who want to sell older bonds generally will have to sell them at a discount to their face value.

Replacing bonds that have prolonged maturity dates with shorter maturity bonds may offer some protection when rates are rising. However, these bonds generally pay less interest than longer term bonds.

Fewer Bonds…

You may also want to consider adding stocks, cash, or other asset classes to a portfolio that is heavily weighted in bonds. Reducing fixed-income holdings might help you avoid substantial losses if interest rates rise dramatically.

…Or *Different* Bonds

Convertible bonds are a fixed-income investment you might want to consider. Although they tend to pay lower interest rates than standard bonds, convertibles give investors the option of converting bonds into

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When Interest Rates Rise... , *continued from page 3*

common stock if the company does well. Non-investment-grade corporate bonds typically pay higher interest rates, but they also present a higher risk of default.

Help from Laddering

Constructing a bond ladder may offer some protection against rising rates. Laddering involves buying bonds with maturities that are spread out over several years. If rates rise, investors can reinvest the proceeds from maturing bonds at the higher rates.

Professional Assistance

Fixed-income investments provide a hedge against stock market volatility and are an important component of a well-diversified portfolio. Interest-rate risk should be evaluated within the context of your portfolio's overall risk.

In a changing market environment, the insights and assistance of an experienced investment manager can be invaluable. If you're ready to review your portfolio, or would like to learn more about how rising interest rates can affect your financial plan, contact your advisor and CERTIFIED FINANCIAL PLANNER™ professional, Kevin Barbier.

Kevin is part of the CEFCU Wealth Management team and can provide sound, unbiased investment planning and management that follows the same standards that guide your Credit Union — looking out for *your* best interests. To schedule your appointment, call 309.633.3836 or 1.800.633.7077, ext. 33836 today.

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