

MEMO# 27863

January 27, 2014

FINRA Issues Investor Alert Regarding IRA Rollovers

[27863]

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TO: PENSION MEMBERS No. 2-14

BROKER/DEALER ADVISORY COMMITTEE No. 6-14

BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 6-14

OPERATIONS COMMITTEE No. 4-14 RE: FINRA ISSUES INVESTOR ALERT REGARDING IRA ROLLOVERS

Following up on its recent guidance in Regulatory Notice 13-45, which reminded firms of their responsibilities regarding IRA rollovers, [\[1\]](#) on January 23, 2014, the Financial Industry Regulatory Authority (FINRA) issued an Investor Alert (Alert) with tips to assist investors in determining whether to roll over employer plan assets to an IRA. [\[2\]](#) The Alert, titled “The IRA Rollover: 10 Tips to Making a Sound Decision,” includes the following investor tips:

1. Evaluate transfer options. The Alert discusses the various choices investors have regarding the transfer of employer plan assets to an IRA.
2. Minimize taxes by rolling Roth to Roth and traditional to traditional. The Alert discusses the tax implications associated with rollovers and notes that an investor may minimize tax liability by rolling over assets from a traditional plan to a traditional IRA, or by rolling over his or her contributions and earnings from a Roth plan to a Roth IRA.
3. Think twice before you do an indirect rollover. In the Alert, FINRA discusses the potential tax consequences and timing requirements of an indirect rollover versus a direct rollover.
4. Be wary of “Free” or “No Fee” claims. The Alert informs investors that FINRA has observed overly broad language in advertisements and other sales materials that implies there are no fees charged to investors who have accounts with the firm. FINRA notes that, even if there are no costs associated with the rollover itself, there will almost certainly be costs related to account administration, investment management, or both.
5. Realize that conflicts of interest exist. In the Alert, FINRA advises that financial professionals might earn commissions or other fees as a result of recommendations in connection with an IRA rollover, in contrast to the little or no compensation paid to a financial professional when leaving assets in a prior employer’s plan or rolling assets into a

new employer's plan.

6. Compare investment options and other services. The Alert discusses the broader range of investment options generally available in an IRA versus an employer plan, as well as the different types of services that may be offered by IRA providers versus employer plans.

7. Understand fees and expenses. FINRA notes that both employer plans and IRAs involve investment related expenses and plan or account fees. The Alert recommends that before making a rollover decision, investors learn how much they are currently paying for their employer plan in order to compare their current employer plan fees and expenses to the fees and expenses of a new plan or IRA.

8. Engage in a thoughtful discussion with your financial or tax professional. FINRA advises investors to raise issues such as tax implications, differences in services, and fees and expenses between retirement alternatives with the investor's financial professional.

9. Age matters. The Alert discusses the impact of the investor's age on penalty-free withdrawals and the impact of the required minimum distribution rules on rollover alternatives.

10. Assess the tax implications of appreciated company stock. The alert advises investors to consider the tax scenarios associated with appreciated company securities in making a rollover decision.

Howard Bard
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endnotes

[1] See [Memorandum](#) to Pension Members No. 1-14, Broker/Dealer Advisory Committee No. 2-14, Bank, Trust and Retirement Advisory Committee No. 1-14, Operations Committee No. 1-14 [27822], dated January 8, 2014. The Notice stated that the recommendation and marketing of IRA rollovers will be an examination priority for FINRA in 2014.

[2] The Investor Alert is available here:
<http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/RetirementAccounts/P436001>.