



### WHAT'S INSIDE?

#### Use Caution When "Borrowing" from an IRA

- No Loan Provisions from IRAs
- Missing the 60-Day Deadline
- Once-Per-Year Rollover Rule Violations
- Proceed with Caution

<Pages 1-3>

#### Executive Summary

<Page 2>

#### Automatic for the People: The Scoop on Trending State Auto-IRAs

- What Is an Auto-IRA Program?
- Which States Have Auto-IRA Programs?
- IRA Issues
- Auto-IRA vs. Company Plan Auto Enrollment
- Federal Government Initiatives
- Challenge to California Auto-IRA Program
- Where Do We Stand?

<Pages 4-5>

#### GUEST IRA EXPERT: Natalie Choate, Esq. Wellesley, MA

#### 10 Ways to Ruin a Qualified Charitable Distribution

<Pages 6-8>

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### Use Caution When "Borrowing" from an IRA

In these times of soaring inflation and economic turmoil, many individuals are facing a cash crunch. For countless Americans, an IRA is their largest asset. As such, it is not surprising they want to leverage IRA assets for a quick solution. *Why not borrow from the IRA instead of securing a loan? Why not use the IRA as an immediate cash resource and just pay the IRA back later?* That may be tempting, but IRA owners should be cautious as there are rules that make this strategy more complicated than it may seem.

#### No Loan Provisions from IRAs

IRAs are different than employer plans. Some employer plans include provisions where participants can take loans. However, there are no loan provisions for IRAs (or from IRA-based plans such as SEPs and SIMPLE IRAs). In fact, taking a loan from an IRA would be considered a prohibited transaction and could result in the entire account becoming an immediate taxable distribution and the retirement savings lost.

Since IRAs do not have loan provisions like qualified plans, the only way to "borrow" from IRA funds on a short-term basis would be to take a distribution, use the funds as needed, and then replace the assets withdrawn from the IRA via a 60-day rollover.

There is nothing in the rules that prohibits individuals from taking a distribution at any time from their IRA and for whatever reason. There is also no rule that limits what can be done with the money while it is out of the IRA during the 60-day period. So yes, it is possible to "borrow" money from an IRA by using the 60-day rollover rule, but this is not technically a "short-term loan."

With an IRA distribution, a recipient has the option of electing no withholding. This is different than plan distributions where 20% withholding is required if the distribution is rollover eligible. IRA "borrowers" will most likely choose not to withhold taxes because they are planning on no tax liability.

#### Missing the 60-Day Deadline

A major concern with using an IRA for a "short-term loan" is the rollover deadline. An IRA owner does not have unlimited time to complete a rollover. Instead, there is a 60-day window to finalize the transaction. For those looking to borrow from their IRA, every day counts, so it is important to understand exactly how this deadline works.

The 60-day clock starts ticking when the distribution is actually received by the IRA owner. It does not begin when the funds leave the IRA or with the date on the distribution check.

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