Practice Tips – Qualified Domestic Relations Orders (QDROs)

Summary	Do you have clients who have been or are getting divorced and receiving all or a portion of their former spouses' retirement benefits pursuant to a qualified domestic relations order (QDRO)? If so, the recipients—known as alternate payees—may be able to roll over the retirement benefits to their own IRAs.
Client Profile	Clients who are divorced or who are getting divorced
Apply the Rules	Generally, retirement plan assets received pursuant to a QDRO can be accessed by the alternate payee, and can be rolled to the alternate payee's IRA. • Many retirement plans allow an alternate payee to take immediate distributions from his/her former spouse's retirement plan. • Distributions to an alternate payee can be rolled to the alternate payee's IRA
Ask a Key Question	Are you, or do you anticipate receiving a share of you former spouse's retirement plan?
Example	Dave and Sue, both age 50, obtain a divorce. Sue has $870,000 in her 401(k) plan with her employer, ABC Company. Dave is self-employed, and has no retirement savings. Under the terms of the QDRO, Dave is awarded $500,000 of Sue's retirement plan balance. For transaction purposes, ABC Company sets Dave up as a "pseudo" participant in the 401(k) plan, and transfers $500,000 to his account from Sue's account. ABC Company's 401(k) plan allows Dave (as an alternate payee) to take an immediate distribution of his account balance. Dave takes a full distribution, and rolls the $500,000 into his own IRA. If Dave were to keep the payment instead of completing a rollover, he would include the distribution in taxable income, but despite being younger than age 59 ½, he would not be subject to an early distribution penalty tax because QDRO payments are exempt from this penalty.

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