

# Retirement accounts provide protection against creditors

Most investors understand the significant tax benefits of using their qualified retirement accounts — such as their 401(k)s, IRAs and Roth IRAs — to build long-term wealth. But did you know that these types of accounts also provide creditor protection?

One of the lesser-known benefits of retirement accounts is this — Federal statutes offer retirement accounts special treatment when subject to the claims of creditors. This creditor protection can be a valuable tool in the event of a legal liability, personal injury lawsuit, or bankruptcy. Accounts that receive special protection include 401(k) plans, pension plans, profit sharing accounts, SEP IRAs, SIMPLE IRAs, 403(b) plans, 457 plans, traditional IRAs, and Roth IRAs.

It is important to understand how federal and state laws affect these rights. Each type of qualified retirement account is subject to a specific jurisdiction and offers varying degrees of security.

## Account protection from creditors

Employer-sponsored retirement accounts — such as 401(k)s, pension plans, and profit sharing accounts — are governed by federal laws outlined by the Employee Retirement Income Security Act of 1974 (“ERISA”).<sup>1</sup> These types of plans have unlimited protection in the event of bankruptcy and other legal liability. Most 403(b) and 457 plans also provide the same unlimited protection.

Employer-sponsored IRA accounts — such as SEP IRAs and SIMPLE IRAs — have unlimited protection for bankruptcy under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (“BAPCPA”),<sup>2</sup> while state laws define the how non-bankruptcy liabilities are handled.

Traditional IRAs and Roth IRAs are protected for bankruptcy up to \$1,512,350<sup>3</sup> under this Act as of 2022. (This protection limit is updated every three years, so will be updated sometime in 2025.) Again, state laws dictate the rules for non-bankruptcy liabilities.

Note that the creditor protection offered for both ERISA plans and IRA-based accounts are only available in the event of bankruptcy and certain legal liabilities. They do not apply to an ex-spouse’s claim pursuant to a divorce proceeding, taxes and penalties due to the Internal Revenue Service, federal criminal fines, or wrongdoing against the retirement plan itself.

### Quick reference guide

Type of Account	Bankruptcy protection	Legal liability protection
<b>401(k)s</b>	Unlimited protection <sup>1</sup>	Unlimited protection <sup>1</sup>
<b>Pension plans</b>	Unlimited protection <sup>1</sup>	Unlimited protection <sup>1</sup>
<b>Profit sharing accounts</b>	Unlimited protection <sup>1</sup>	Unlimited protection <sup>1</sup>
<b>SEP IRAs</b>	Unlimited protection <sup>2</sup>	Regulated by state
<b>SIMPLE IRAs</b>	Unlimited protection <sup>2</sup>	Regulated by state
<b>403(b) plans</b>	Unlimited protection <sup>1</sup>	Unlimited protection <sup>1</sup>
<b>457 plans</b>	Unlimited protection <sup>1</sup>	Unlimited protection <sup>1</sup>
<b>Traditional IRAs</b>	Aggregate protection up to \$1,512,350 (2022) <sup>2</sup>	Regulated by state
<b>Roth IRAs</b>	Aggregate protection up to \$1,512,350 (2022) <sup>2</sup>	Regulated by state

1. Based on ERISA guidelines | 2. Based on BAPCPA guidelines

## Account withdrawal protection from creditors

Furthermore, withdrawals from an ERISA retirement plan can retain an enhanced level of creditor protection depending on the destination of the withdrawal:

- Funds deposited to another employer’s ERISA plan maintain unlimited protection for both bankruptcy and legal liability.

- Funds deposited to an IRA account consisting solely of rollover funds maintain unlimited protection for bankruptcy, but not for legal liability (this is determined by state laws).
- Funds deposited to an IRA account which includes non-ERISA contributions (a “comingled” IRA) are protected for bankruptcy up to the \$1,512,350 until March 31, 2025. Legal liability is subject to state laws.
- Funds withdrawn as cash distributions are no longer protected against claims.

Each state has its own regulations for dealing with non-bankruptcy claims. For example, Illinois law provides unlimited protection against legal liability for traditional IRAs and Roth IRAs (as well as for any qualified retirement account not covered by ERISA). Be aware that most states do not endow “inherited IRAs” with creditor protection.

Understanding exactly which assets are protected from specific types of creditors — and which are not — is a critical component to the construction and maintenance of your comprehensive financial plan. It is important to remember that the concepts above are guidelines based on current laws, which of course, can change over time, and that every individual’s financial planning needs are unique. If you have any questions about how your specific retirement accounts are impacted, please contact your wealth advisor.

Published January 2025

1. Employee Retirement Income Security Act of 1974 (ERISA).
2. Bankruptcy Abuse Prevention and Consumer Protection Act of 2005
3. <https://www.thebankruptcysite.org/exemptions/federal.html>

**Mesirow does not provide legal or tax advice.** Past performance is not indicative of future results. The views expressed above are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Mesirow associates. This is not a solicitation to buy or sell the securities mentioned. Do not use this information as the sole basis for investment decisions, it is not intended as advice designed to meet the particular needs of an individual investor. Information herein has been obtained from sources which Mesirow believes to be reliable, we do not guarantee its accuracy and such information may be incomplete and/or condensed. All opinions and estimates included herein are subject to change without notice. This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing or using any of the information. If you receive this communication in error, please contact the sender immediately and destroy the material in its entirety, whether electronic or hard copy. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2025, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial Investment Management, Inc.’s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.