Tax Considerations for
REFUNDS AND ROLLOVERS

All or part of your Defined Benefit (DB) Plan account(s) may be eligible for rollover by you or PERA as a rollover to an IRA or an eligible employer plan.

A rollover is a payment by you (60-day rollover) or PERA (direct rollover) of all or part of the tax-deferred dollars of your DB Plan account(s) to another plan or traditional IRA that allows you to continue holding the money tax-deferred until it is paid to you. Your DB Plan account(s) cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account.

Note: Your payment also can be rolled over to a section 408(a) Roth IRA subject to the same limits that apply to rollovers from a traditional IRA to a Roth IRA. PERA cannot determine your eligibility to do a Roth IRA rollover.

An "eligible employer plan" includes:

- A plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan;
- A 403(a) annuity plan;
- A 403(b) tax-sheltered annuity; and
- A 457(b) governmental plan.

An eligible employer plan is not legally required to accept a rollover. Before you decide to do a rollover of your DB Plan account(s) to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover.

Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions, such as tax-paid (after-tax) amounts. Because of this, PERA issues tax-paid amounts as a separate check from your tax-deferred amounts. If this is the case, and your DB Plan account(s) includes tax-paid amounts, you may wish instead to do a rollover of your DB Plan account(s) to an IRA or split your rollover amount between the employer plan in which you will participate and an IRA.

If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse's consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from PERA. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

If you have additional questions after reading the following notice, contact PERA's Customer Service Center at 1-800-759-7372. You may also want to contact a tax professional before doing a rollover/refund of your DB Plan account(s).

IRS NOTICE FOR QUALIFIED DISTRIBUTIONS FROM YOUR PERA 401(A) DB PLAN ACCOUNT(S)

When you terminate PERA-covered employment, you have the following options:

- Leave your DB Plan account(s) at PERA until the year you reach age 72.
- Roll over your DB Plan account(s) to an IRA or an eligible employer plan.
- Refund your DB Plan account(s) and pay the IRS 10% additional income tax for early distribution if you refund before age 59½.

Notice Summary

Rules that apply to a rollover of your DB Plan account(s) are described in "General Information About Rollovers" to the right. Special rules that only apply in certain circumstances are described in "Special Rules and Options" on page 3.

(Continued on inside)

General Information About Rollovers

How Can a Rollover Affect My Taxes?

You will be taxed on a refund of your DB Plan account(s). You will not be taxed on your DB Plan account(s) if you roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

Where May I Roll Over the Payment?

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

How Do I Do a Rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

If you do a direct rollover, PERA will make the check payable to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment payable to you from PERA to make the deposit. If you do not do a direct rollover, PERA is required to withhold 20% of the payment for federal income taxes. You may also increase this percentage by completing an IRS Form W-4R. This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the total amount of federal tax withholding that was deducted. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

How Much May I Roll Over?

If you decide to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

A. *Required Minimum Distributions.* Beginning when you reach age 70 ½ or 72 (depending on your birth year), or terminate covered employment, whichever is later, a certain portion of your payment cannot be rolled over because it is a "Required Minimum Distribution" that must be paid to you.

B. *Corrective distributions of contributions that exceed tax law limitations.* A distribution that is made because legal limits on certain contributions were exceeded cannot be rolled over.

PERA can tell you what portion of a payment is eligible for rollover.

If I Don't Do a Rollover, Will I Have to Pay the 10% Additional Income Tax on Early Distributions?

If you are under age 59½, you will have to pay the 10% additional income tax on early distributions from your DB Plan account (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over. The amount that PERA will automatically withhold for income tax purposes is not intended to cover the 10% additional income tax. You can request that an additional amount be withheld from your payment or you can work with the IRS or your tax professional for payment of this additional tax.

The 10% additional income tax does not apply to the following payments from the plan:

» Payments made after you terminate PERA-covered employment if you will be at least age 55 in the year you terminate employment.

» Payments made after you terminate PERA-covered employment if you are a Safety Officer and you are at least age 50 in the year you terminate employment.

» Payments that are paid because you retire due to disability.

» Corrective distributions of contributions that exceed tax law limitations.

» Payments made directly to the government to satisfy a federal tax levy.

» Payments made to an alternate payee under a domestic relations order (DRO).

» Payments up to the amount of your deductible medical expenses.

» Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001, for more than 179 days.

If I Do a Rollover to an IRA, Will the 10% Additional Income Tax Apply to Early Distributions From the IRA?

If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions for early distributions from a plan (see list to left). However, there are a few differences for payments from an IRA, including:

» There is no exception for payments after separation from service that are made after age 55.

» The exception for domestic relations orders (DROs) does not apply. However, a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse.

» The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.

» There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to $10,000 used in a qualified first-time home purchase, and (3) payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

Will I Owe State Income Taxes?

This notice does not describe any state or local income tax rules (including withholding rules).

Special Rules and Options

If Your Payment Includes After-Tax Contributions

If your DB Plan account(s) has any after-tax money in it, that amount will not be taxed if you refund your DB Plan account(s).

Rollover into an IRA. You may roll over your DB Plan account(s) that includes after-tax money to an IRA through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs).

If you do a direct rollover of only a portion of your DB Plan account(s) and a portion is paid to you, each of the payments will include an allocable portion of the after-tax contributions. If you do a 60-day rollover to an IRA of only a portion of your DB Plan account(s), the after-tax contributions are treated as rolled over last. For example, assume your DB Plan account(s) totals $12,000, of which $2,000 is after-tax contributions. In this case, if you roll over $10,000 to an IRA in a 60-day rollover, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions.

Rollover into an Employer Plan. You may roll over your DB Plan account(s) that includes after-tax money to an employer plan, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of your DB Plan account(s) that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

If you have after-tax (tax-paid) money in your account(s) and want to roll over this portion, obtain the *Financial Institution Certification* form from PERA's website.

If You Miss The 60-Day Rollover Deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee.

For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs).*

If You Were Born on or Before January 1, 1936

If you were born on or before January 1, 1936, and receive a refund of your PERA DB Plan account that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, *Pension and Annuity Income.*

If You Roll Over Your Payment to a Roth IRA

If you roll over the payment to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within five years, counting from January 1 of the year of the rollover).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified first-time home buyer distribution of up to $10,000) and after you have had a Roth IRA for at least five years. In applying this five-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take Required Minimum Distributions from a Roth IRA during your lifetime.

For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs),* and IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs).*

If You Are a Nonresident Alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, PERA is generally required to withhold 30% of the payment. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S.

If your address is outside of the United States, you must complete one of the following forms for federal income tax withholding:

» You must provide to PERA an IRS Form W-9, *Request for Taxpayer Identification Number and Certification,* if you are a U.S. citizen (even though you reside outside of the United States). The only purpose of this form is to gain your certification that you are a U.S. citizen; PERA is not requesting you obtain a new Taxpayer Identification Number.

» You must provide to PERA an IRS Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals),* if you are a foreign person (a nonresident alien) to:
  - Establish that you are a foreign person;
  - Claim that you are the beneficial owner of the income for which form W-8BEN is being provided; and
  - Claim a reduced rate of, or exemption from, withholding as a resident of a foreign country with which the United States has an income tax treaty (if applicable).

Additional information is available from the IRS (1-800-829-1040 or irs.gov) in Publication 519, *U.S. Tax Guide for Aliens,* and IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities.* PERA is required by law to withhold 30% from any payments you are to receive if Form W-9 or Form W-8BEN is not received. If you have any questions about your tax status, please contact your tax professional.

Other Special Rules

If your refund is less than $200, PERA is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover. You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, *Armed Forces' Tax Guide.*

For More Information

This notice summarizes only the federal (not state or local) tax rules that may apply to your rollover/refund. The rules described here are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a tax professional before you do a rollover/refund of your DB Plan account(s). Also, you can find more detailed information on the federal tax treatment of payments from an IRA or employer plan in the following publications:

» IRS Publication 575, *Pension and Annuity Income.*

» IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs).*

» IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs).*

» IRS Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans).*

» IRS Form W-4R, *Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions.*

These publications are available from a local IRS office, online at irs.gov, or by calling 1-800-TAX-FORM.