Special Tax Notice

Fact Sheet – 20

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Consider the tax implications before receiving a refund or withdrawal

All distributions (payments) from the Louisiana School Employees' Retirement System (LSERS) are subject to applicable IRS rules and regulations, including:

- Refunds of member contributions
- Withdrawals from Deferred Retirement Option Plan (DROP) account*****
- Withdrawals from Initial Benefit Retirement Plan (IBRP) account*****
- Option 1 death benefits

You should carefully consider all tax implications of **any** refund or withdrawal that you may request from LSERS. This notice contains important information you will need before you decide how to receive your distribution from LSERS.

**** DROP/IBRP participants eligible to retire on/after 1/1/2004, your funds will automatically be transferred into a Stable Value Fund for LSERS at Empower Retirement (effective 1/1/2020). Please consult with Empower Retirement at www.louisianadcp.com or 1.800.701.8255 regarding tax implications when you request withdrawals from your account.***

What is a rollover-eligible payment?

Payments from LSERS may be "eligible rollover distributions". This means that they can be rolled over to a traditional IRA, another employer retirement plan, a 403(b) tax-sheltered annuity, or a governmental 457(b) plan that accepts rollovers. Rollovers cannot be made to a SIMPLE IRA or a Coverdell Education Savings Account because these are not traditional IRAs.

All refunds of sheltered member contributions, and a majority of DROP and IBRP account withdrawals scheduled over a period of less than 10 years, and most Option 1 death benefits paid to spouses of members, are eligible for rollover.

What can you do with a rollover-eligible payment?

You can choose a direct rollover of all or any part of your payment that is considered an "eligible rollover distribution". With a direct rollover, the eligible rollover distribution is paid directly by LSERS to a traditional IRA, Roth IRA or other eligible retirement plans. If you choose a direct rollover, you are not taxed on the payment amount until you later withdraw it out of the plan you choose.

Special tax rules apply to rollovers to a Roth IRA. The plan administrator is not responsible for assuring your eligibility to make a rollover to a Roth IRA. (*IRS Notice 2008-30*).

You may not roll your benefits over into multiple plans. You may choose only one traditional IRA or one eligible retirement plan to receive the direct rollover of a distribution. In addition, no federal income tax withholding is required for your plan benefits for which you choose a direct rollover.

Direct rollover to a traditional IRA

You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional IRA (not a Roth IRA, SIMPLE IRA, or Coverdell Education Savings Account), contact an IRA sponsor (usually a financial institution) to find out how the institution will receive your payment. You will provide to LSERS the check information, the "pay to the order of", the address and your account number. If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the payment. However, in choosing a traditional IRA, you may wish to make sure that the traditional IRA you choose will allow you to move all or a part of your payment to another traditional IRA at a later date, without penalties or other limitations. See IRS Publication 590, *Individual Retirement Arrangements*, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

Direct rollover to a qualified plan
If you are employed by a new employer that has an eligible employer plan such as a 401K, a 403(b) tax-sheltered annuity, or a governmental 457(b) plan, you may want a direct rollover to that plan. Contact the plan administrator to see if your rollover can be accepted and what restrictions are in place for future withdrawals from the plan. An eligible employer plan is not legally required to accept a rollover.

60-Day rollover option
If you have an eligible rollover distribution paid to you (not an institution), you can still decide to roll over all or part of it to a traditional IRA or an eligible retirement plan that accepts rollovers. If you decide to roll over, per IRS rules, **you must make the rollover within 60 days after you receive the payment.** The portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the employer plan. Rollovers may not be made to a SIMPLE IRA, or a Coverdell Education Savings Account, because these are not traditional IRAs.

If a rollover-eligible payment is made to you
If you have a rollover-eligible payment made to you, it is subject to a mandatory 20-percent Federal income tax withholding. However, distributions of less than $200 will not be subject to the mandatory 20-percent withholding.

The payment is taxed in the year you receive it unless, **within 60 days** you roll it over to a traditional IRA or eligible retirement plan that accepts rollovers. If you do not roll it over, special tax rules may apply. Please consult your tax advisor.

After receiving the payment, you may later decide within 60 days to roll over 100% of the payment made to you to a traditional IRA or an eligible retirement plan. To roll over 100% you must find other money to replace the 20% Federal tax withheld. LSERS will not refund the Federal withholding. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and not rolled over.

Example

> Your eligible rollover distribution is $10,000, and you choose to have it paid to you. You will receive $8,000 and $2,000 will be sent to the Internal Revenue Service (IRS) as income tax withholding.
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> Within 60 days after receiving the $8,000, you may rollover the entire $10,000 to a traditional IRA or eligible retirement plan. To do this, you roll over the $8,000 you received from LSERS, and you will have to find $2,000 from other sources (your savings, a loan, etc.).
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> In this case, the entire $10,000 is not taxed until you take it out of the traditional IRA or eligible retirement plan. If you roll over the entire $10,000, when you file your income tax return, you may get a refund of the $2,000 withheld.
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> If, on the other hand, you roll over only $8,000, the $2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the $2,000 withheld. Please consult your tax advisor.

Types of payments that can and cannot be rolled over

Payments spread over long periods
You cannot roll over a payment if it is part of a series of payments that are made at least once a year and that will last for your lifetime (or your life expectancy), or your lifetime and your beneficiary's lifetime (or life expectancies), or a period of 10 years or more.

Required minimum payments
For payments beginning in the year you reach age 70 1/2, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you. Per IRS rules, distributions must take place when you reach 70 1/2.

Distributions of less than $200 will not be rolled over directly by LSERS.

Income tax withholding

Voluntary withholding
If any portion of your payment is taxable but cannot be rolled over, the mandatory withholding does not apply. In this case, you may elect not to have withholding apply to that portion. To elect out of withholding, complete and submit to LSERS a Form W4P – Withholding Certificate for Pension and Annuity Payments.

Additional 10% tax if you are under age 55 at the end of retirement year
If you receive a rollover-eligible payment before you reach age 55 and you do not roll it over, then, in addition to the regular income tax rate, you may have to pay a penalty equal to 10% of the taxable portion of the payment.

The 10% penalty does NOT apply to the following payments:

1. Paid because you retired due to disability,
2. Upon separation from service you are paid equal (or almost equal) payments over your life expectancy (or you and your beneficiary's life expectancies) before you reach 59 1/2,
3. Paid directly to the government to satisfy a federal tax levy,
4. Paid to an alternate payee under a qualified domestic relations order, or
5. Payments that do not exceed the amount of your deductible medical expenses.

See *IRS Form 5329* for more information on the additional 10% penalty.

Surviving spouses, alternate payees, and other beneficiaries
In general, the rules summarized on the preceding sections that apply to payments to members also apply to payments to surviving spouses of members and to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in LSERS results from a "qualified domestic relations order," which is an order issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized also apply to a deceased member's beneficiary who is not a spouse. However, there are some exceptions for payments to surviving spouses, alternate payees, and other beneficiaries that should be mentioned.

If you are a surviving spouse or an alternate payee, you have the same choices as the member. Thus, you can have the payment made as a direct rollover or paid to you. If you have it paid to you, you can keep it or roll it over yourself to a traditional IRA or to another eligible retirement plan that accepts roll-overs.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10% tax, even if you are younger than age 55.

For additional information
The rules described in this Fact Sheet are complex; many conditions and exceptions are not included here, as this is only a summary of the federal tax rules that might apply to your payment. We encourage you to consult with a tax professional before you take a payment of your benefits from LSERS.

Benefits you receive from LSERS or from the Self-Directed Plan with Empower Retirement are exempt from La. State Income Tax; therefore, this Fact Sheet does not address any applicable state tax rules. You can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, *Pension and Annuity Income,* and IRS Publication 590, *Individual Retirement Arrangements.* These publications are available from your local IRS office or www.irs.gov. For information on Louisiana personal income tax, call the Department of Revenue at 225.219.0102 or go online to the Taxpayer Education page, http://revenue.louisiana.gov/TaxProfessionals/TaxpayerEducation.