STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Public Employees' Retirement System

Teachers' Pension and Annuity Fund

Police and Firemen's Retirement System

State Police Retirement System

APPLICATION FOR WITHDRAWAL

PO Box 295
Trenton, NJ 08625-0295

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*If, after reading this booklet, you have questions about your withdrawal options, call the Division of Pensions and Benefits at **(609) 292-7524.***

FREQUENTLY ASKED QUESTIONS

1. Who is eligible to withdraw?

To withdraw the balance of your pension contributions in a lump sum, you must have resigned your position and no longer be employed in a covered position.

Withdrawal is not permitted by law if you are on a leave of absence granted by your employer.

An employee who is receiving periodic Workers' Compensation benefits as the result of an injury incurred in public employment is considered an active employee and an active member of the pension fund. If you are receiving Workers' Compensation benefits, or have a case pending, applying for withdrawal from the pension fund could jeopardize your rights to benefits. In such cases, the Division will require that you complete an additional retirement benefit waiver form.

If you were dismissed from your position and are in the process of appealing that dismissal, you cannot withdraw your contributions until a decision has been rendered or your appeal is withdrawn.

If you hold more than one position covered under the pension fund (multiple membership), you cannot withdraw until you have terminated all employment covered by the pension fund.

2. What is inactive membership?

When you resign your position, you may leave your contributions on deposit and continue an inactive membership in the fund for a maximum period of two years.

Should you return to active service in a position covered by the pension fund before the expiration of your membership, you may reactivate your account with the same service credit established at the time you ceased employment.

The period during which you were inactive will not count as service credit for retirement.

If your position was abolished due to a layoff, your employer must notify the Division of Pensions and Benefits in writing, and your membership in the fund can remain inactive for a maximum of ten years (five years for PFRS members).

3. How do I apply for withdrawal?

You must complete Part One and Part Two of the *Application for Withdrawal*. Be sure to sign and date your application.

Your former employer is responsible for the *Employer's Certification for Withdrawal* form. Your withdrawal claim cannot be paid until your former employer has completed this form.

If you are a member of the New Jersey State Employees Deferred Compensation Plan or Supplemental Annuity Collective Trust (SACT), you must file separate applications for withdrawal from those plans. You can obtain an application by calling the Deferred Compensation Plan at (609) 292-3605, or SACT at (609) 633-2031.

4. What happens to my Group Life Insurance when I withdraw?

Group Life Insurance coverage will expire 31 days after your termination of employment. You may convert all or any part of your insurance to an individual policy by contacting the Prudential Insurance Company of America, Inc. at 1-800-262-1112.

Contributions made for Contributory Group Life Insurance are not refundable upon termination of employment.

5. If I am taking another job in New Jersey government, must I withdraw?

If you are terminating employment to accept another position covered by any government agency in New Jersey (except federal government), you may transfer your account. Please call the Office of Client Services at (609) 292-7524 for more information.

6. I have 10 years of service credit, but have not reached normal retirement age. Must I withdraw?

If you have established at least 10 years of service credit and have not reached normal retirement age, you can apply for Deferred Retirement, whereby you begin collecting a monthly pension at the normal retirement age. Call the Benefits Information Library at (609) 777-1931 and request catalog item 210 for information about Deferred Retirement.

Normal retirement age for the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) is 60. Normal retirement age for the Police and Firemen's Retirement System (PFRS) or the State Police Retirement System (SPRS) is 55.

You are not eligible for Deferred Retirement if you withdraw your contributions.

7. What is payable when I withdraw?

If you terminate employment or cease to be an employee for any reason other than death or retirement, you shall receive all of the accumulated deductions standing to your credit in your individual account less any outstanding loan balance.

Withdrawing members of the PERS or TPAF who have at least three years of contributing membership service at the time the service ceases will have interest credited.

No interest is payable to withdrawing members of the PFRS or SPRS.

INSTRUCTIONS FOR COMPLETING THE WITHDRAWAL APPLICATION

***PART ONE AND PART TWO OF THE APPLICATION FOR WITHDRAWAL* are to be completed by the member and signed. The application should then be returned to the Division of Pensions and Benefits. If you have difficulty completing this form, please call the Division of Pensions and Benefits, Office of Client Services at (609) 292-7524 for assistance. The Division of Pensions and Benefits cannot give tax advice.**

PART ONE:

ITEM 2 — ADDRESS

Withdrawal checks must be mailed. They cannot be picked up at the Division of Pensions and Benefits. If you move between the time you file the application and the check is mailed, you may change your address by contacting the Division's Office of Client Services at (609) 292-7524.

ITEMS 5 and 6 — RETIREMENT SYSTEM/MEMBER NUMBER

Be sure to indicate your retirement system and membership number. If you are not sure, consult your personnel, payroll office, or look on your annual *Personal Benefits Statement*.

ITEM 9 — REASON FOR TERMINATION

You must indicate the reason and date of your termination. See Question #1 of the *Frequently Asked Questions* for information on dismissal.

ITEM 10 — WORKERS' COMPENSATION CASES

If you are receiving Workers' Compensation benefits, the Division is required to send you an additional retirement benefit waiver form which you must complete and return before we can process your withdrawal.

ITEM 11 — WAIVER OF RETIREMENT BENEFITS

Please read the instructions on the application and the information in Question #6 of the *Frequently Asked Questions* carefully before completing this waiver. If you have 10 years of membership credit or are age 58 or older (PERS and TPAF) and do not complete this item, you will be required to complete and return a separate benefit waiver form before we can process your withdrawal.

DO NOT RETURN THE APPLICATION WITHOUT COMPLETING PART TWO.

PART TWO: ROLLOVER ELECTION — SELECTION OF PAYMENT TYPE

If Part Two is not completed or completed incorrectly, the Division of Pensions and Benefits will make your total payment payable to you and withhold 20% federal income tax on the taxable portion of your payment.

Please carefully read the payment selection information on the following page, the instructions on the application, and Fact Sheet #27 — *The Taxability and Mandatory Withholding of Income Tax from your Pension Distribution* before completing this portion of your application. Your selection in Part Two of the application can not be changed once your application has been processed. Call the Automated Information System at (609) 777-1777 to hear your approximate taxable amount and other information concerning withdrawal.

(continued on next page)

(PART TWO continued from previous page)

Selection 1 - If you choose this selection, the Division of Pensions and Benefits will make your benefit check payable to you at the address listed in Part 1. **20% of the taxable portion of your payment will be withheld** as federal income tax.

Selection 2 - If you choose this selection, there will be a direct **rollover of the entire taxable and non-taxable portion** of your payment. **<u>This selection is only open to those whose taxable portion is $200 or more.</u>** You must insert the name of the financial institution or employer plan that will accept your rollover. The Division of Pensions and Benefits will mail a check to you which will be made payable to the institution or employer plan you selected to accept your rollover.

Selection 3 - If you choose this selection, there will be a direct **rollover of the entire taxable portion** of your payment. **<u>This selection is only open to those whose taxable portion is $200 or more.</u>** You must insert the name of the financial institution or employer plan that will accept your rollover. The Division of Pensions and Benefits will mail a check to you representing the taxable portion of your payment which will be made payable to the institution or employer plan you selected to accept your rollover. If part of your payment is non-taxable, a second check for the non-taxable portion will be made payable to you.

Selection 4 - If you choose this selection, there will be a direct **rollover of part of the taxable portion** of your payment. **<u>This selection is only open to those whose taxable portion is $200 or more.</u>** You must insert the dollar amount you wish to roll over and the name of the financial institution or employer plan that will accept your rollover. Any remaining portion of your taxable amount will be paid to you in a separate check, less 20% for federal tax, along with any non-taxable amount.

Selection 5 - If you choose this selection, there will be a direct **rollover of the entire taxable portion** of your payment, **along with a portion of your non-taxable** payment. **<u>This selection is only open to those whose taxable portion is $200 or more.</u>** You must insert the dollar amount of the non-taxable portion that you wish to roll over and the name of the financial institution or employer plan that will accept your rollover. The remaining portion of your non-taxable amount will be paid to you in a separate check.

<u>PART THREE: SIGNATURE</u>

Be sure to sign and date your application. For your own protection, unsigned applications will not be processed. The Division cannot accept photocopies or facsimiles of completed applications.

NOTE: If you are a participant in the **Supplemental Annuity Collective Trust** (SACT) or **New Jersey State Employees Deferred Compensation Plan (**NJSEDCP), and are withdrawing all accumulated salary deductions in the retirement system, a separate application to withdraw from these plans must be filed and submitted to the Division of Pensions and Benefits. To obtain an application please call (609) 633-2031 for SACT or (609) 292-3605 for NJSEDCP.

<u>EMPLOYER CERTIFICATION</u>

The *Employer Certification for Withdrawal* form must be filled out by your former employer after you have terminated employment. While the employer's certification does not have to accompany your *Application for Withdrawal*, WE CANNOT PROCESS YOUR APPLICATION UNTIL WE RECEIVE THE EMPLOYER'S CERTIFICATION.

State of New Jersey — Department of the Treasury
Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295 — (609) 292-7524

APPLICATION FOR WITHDRAWAL

Please read instructions carefully before completing the application.

PART ONE: To be completed by member. Please print.

1. Name ______________________________
FIRST MIDDLE INITIAL LAST

2. Mailing Address ______________________________
STREET APT. NO.

____
CITY STATE ZIP CODE

3. Daytime Telephone No. (________) ______________________
AREA CODE

4. Date of Birth ______________________________
MONTH DAY YEAR

5. I am a member of *(check one only)*:

☐ Public Employees' Retirement System

☐ Teachers' Pension and Annuity Fund

☐ Police and Firemen's Retirement System

☐ State Police Retirement System

DETACH HERE BEFORE MAILING

6. Member No. ______________________________

7. Social Security No. ______________________________

8. Employer ______________________________

9. Please indicate the reason and date you terminated employment ☐ Resigned ☐ Dismissed

Date: _______/_______/_______
MONTH, DAY, YEAR

10. ☐ I AM, or ☐ AM NOT receiving periodic benefits under a claim filed for Workers' Compensation based on an injury incurred as a result of service performed in public employment.

☐ I DO, or ☐ DO NOT have a Workers' Compensation claim or litigation pending.

11. Members having 10 or more years of membership credit or who are within 2 years of normal retirement age must waive any monthly retirement benefits by completing the waiver below. ***This item must be completed before your application can be processed.*** If you do not complete the waiver, you will receive an estimate of the retirement and group life insurance benefits for which you would be eligible and a benefit waiver form which must be completed and returned before we can process your withdrawal. ***Any member who is at least age 60 (for PERS and TPAF) or at least age 55 (for PFRS and SPRS) will automatically receive an estimate of retirement benefits and waiver form to complete.***

☐ Although I am eligible for retirement, I elect to withdraw my pension contributions and hereby waive my right to receive a lifetime monthly allowance and group life insurance at retirement in favor of receiving a refund of my pension contributions now. ______________________________
(You must sign here)

PLEASE COMPLETE SIDE 2 —

Member's Name____ Member No. ____________________

PART TWO: To be completed by member. Please print.

Please carefully read the following section and indicate your choice by checking one of the boxes below (this selection is irrevocable once made). For an explanation of these selections read the instructions for Part Two in *Completing the Withdrawal Application*. If Part Two is not completed or is completed incorrectly, the Division of Pensions and Benefits will automatically withhold 20% federal income tax. Call the Automated Information System at (609) 777-1777 to hear your approximate taxable amount and other information concerning withdrawal.

IMPORTANT: YOUR SELECTION IS IRREVOCABLE.

Rollover is only available if the taxable portion of your payment is $200 or more.

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1. ☐ **Withhold 20% federal income tax** on the taxable portion of my payment.

2. ☐ **Roll over the entire payment including any after tax contributions** to:
Print the name of the financial institution or employer plan ____
This is an: ☐ IRA ☐ Employer Plan

3. ☐ **Roll over the entire taxable portion** of my payment to:
Print the name of the financial institution or employer plan ____
This is an: ☐ IRA ☐ Employer Plan

4. ☐ **Roll over $**______________ *(dollar amount)* **of the taxable portion** of my payment to:
Print the name of the financial institution or employer plan ____
This is an: ☐ IRA ☐ Employer Plan

5. ☐ **Roll over the entire taxable portion and $**______________ *(dollar amount)* **of the non-taxable portion** of my payment to:
Print the name of the financial institution or employer plan ____
This is an: ☐ IRA ☐ Employer Plan

PART 3: I have read both the letter and fact sheet sent with this form. I understand that the Division of Pensions and Benefits will act upon my choice in Part Two. **I understand my selection in Part Two cannot be changed.**

______________________________________ ____________________
Signature *Date*

State of New Jersey — Department of the Treasury
Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295 — (609) 292-7524

EMPLOYER'S CERTIFICATION FOR WITHDRAWAL

THIS FORM MUST BE COMPLETED BY FORMER EMPLOYER

1. Name of Member ______________________________

2. Membership No. ____________________ 3. Social Security No. ____________________

This certification will be used to calculate the payment due to the member.

DO NOT COMPLETE THIS FORM UNTIL THE LAST DEDUCTION FROM SALARY HAS BEEN MADE.

I certify that ______________________________ ☐ resigned ☐ was dismissed (no appeal pending) ☐ was dismissed (appeal pending)

NAME OF FORMER EMPLOYEE

from this organization on ____________ (DATE). The last pension deduction was made ____________ (BIWEEKLY PAY PERIOD / YEAR *OR MONTH/ YEAR**).

**State employers must enter the number of the pay period and the year of the last pension deduction. All other employers must enter the month and year of the last pension deduction and be sure to submit that deduction for the entire month.*

The employee ☐ IS, or ☐ IS NOT receiving periodic benefits under a claim filed for Workers' Compensation based on an injury incurred as a result of service performed in public employment and ☐ DOES, or ☐ DOES NOT have a Workers' Compensation claim or litigation pending.

CERTIFICATION OF SALARY DEDUCTIONS
ONLY TO BE COMPLETED FOR ANY UNPOSTED PENSION CONTRIBUTIONS

I certify that the following deductions have been made from the employee's salary during the last two quarterly periods ending with the current quarter. State biweekly reporting agencies must attach a completed Supplemental Biweekly Certification of Employing Agency or a screen print of the Centralized Payroll History screen in lieu of completing this item.

QUARTER ENDING	BASE SALARY SUBJECT TO CONTRIBUTIONS THIS QUARTER	FULL RATE (%)	PENSION CONTRIBUTION	LOAN REPAYMENT	BACK DEDUCTIONS	ARREARS AND/OR PURCHASES	TOTAL PENSION CONTRIBUTIONS	SACT YES OR NO
	$		$	$	$	$	$	
	$		$	$	$	$	$	

Signature of
Certifying Officer ______________________________ Date ____________________

Employing Agency ______________________________ Telephone Number ____________________

(INCLUDE AREA CODE)

INSTRUCTIONS FOR COMPLETING THE EMPLOYER'S CERTIFICATION

This certification must be completed by the employer when a member files an application for withdrawal of pension contributions. Failure to provide this information will delay processing of the member's application for withdrawal. If you need assistance in completing this certification, call the Division of Pensions and Benefits' Office of Client Services at (609) 292-7524 weekdays between 9:00 a.m. and 4 p.m. (except State holidays).

ITEMS REQUIRING SPECIAL ATTENTION

REASON FOR LEAVING

You must indicate the member's reason for leaving. Place an (X) the box next to "resigned," or if the member was dismissed, you must also indicate with an (X) if the dismissal has an appeal pending or no appeal pending. This information is required before processing the withdrawal application.

TERMINATION DATE

A member must terminate employment **before** this certification can be submitted to the Division of Pensions and Benefits. Include the date of termination and the date of the last pension deduction. **State biweekly reporting agencies must enter the number and year of the last pay period of the last pension deduction. All other employers must enter the month and year of the last pension deduction.**

WORKER'S COMPENSATION

Please indicate if the member was receiving periodic benefits under a claim filed for Worker's Compensation. Place an (X) in the block to indicate if the member IS or IS NOT receiving these benefits. You must also indicate with an (X) if the member DOES or DOES NOT have a Worker's Compensation claim or litigation pending. This information is required before processing the withdrawal application.

SALARY DEDUCTIONS

Indicate the following: (1) quarter ending, (2) amount of monthly base salary subject to contributions, (3) full rate of contribution, (4) the dollar amount of the deduction, (5) loan repayment amount (if any), (6) back deductions, (7) arrears or purchase deductions, (8) the total pension contributions (include all deductions for the quarter), and (9) answer "yes" or "no" to whether the member contributed to the Supplemental Annuity Collective Trust (SACT).

SUBMIT THIS CERTIFICATION TO: **WITHDRAWAL SECTION**
DIVISION OF PENSIONS AND BENEFITS
PO BOX 295
TRENTON NJ 08625-0295

A PUBLICATION OF THE NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

THE TAXABILITY AND MANDATORY WITHHOLDING OF INCOME TAX FROM YOUR PENSION DISTRIBUTION

All Funds

This fact sheet summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described below are complex and contain many conditions and exceptions that are not included in this fact sheet. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from your retirement account.

The Division of Pensions and Benefits cannot give tax advice. You can find more specific information on the tax treatment of payments from qualified employer 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, the IRS's Web site at *www.irs.gov*, or by calling 1-800-TAX-FORMS.

The term IRA used in this fact sheet includes traditional individual retirement accounts and individual retirement annuities. It does **not** include a Roth IRA, SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA).

WHAT IS A ROLLOVER?

Payments received from a retirement plan are treated as income subject to income tax for the year in which they are received. You may want to postpone paying income tax on such distributions from your pension plan by placing those payments in a **traditional IRA** or another **eligible employer-sponsored retirement plan**. This procedure is called a "rollover." When you draw funds that have been rolled over out of a traditional IRA or employer plan at a later date, they will then be subject to federal and state income tax.

A traditional IRA does not include a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). Payments cannot be rolled over to these types of IRAs. 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 section 403(b) annuity plan; a section 403(b) tax-sheltered annuity; and
- an eligible section 457(b) plan maintained by a governmental employer.

Types of Rollovers

There are two ways you may be able to receive a payment that is eligible for rollover:

(1) Certain payments can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit. This is known as a "**Direct Rollover**."

(2) The payment can be **paid to you**. Payments that you accept are subject to federal tax withholding. You have the option, within 60 days of receipt, of rolling over payments that are made to you. This is known as an "**Indirect Rollover**."

Both Direct and Indirect Rollovers are discussed later in this fact sheet.

TYPES OF PAYMENTS THAT CAN BE ROLLED OVER

Taxable and certain non-taxable distributions from the State retirement systems may be rolled over. These include:

- Lump-sum withdrawals of member contributions;

- Lump-sum death payments to a spouse; and
- Annuity payments to spousal beneficiaries under five year certain options.

The amount eligible for rollover is the accumulation of any before-tax and after-tax contributions to the pension plan, and all earnings on the account.

Special Rules for After-tax Contributions

If you made after-tax contributions to the pension plan, these contributions may be rolled into either a traditional IRA or to certain employer plans that accept rollovers of after-tax contributions. The following rules apply:

Rollover into a Traditional IRA - You can roll over your after-tax contributions to a traditional IRA either directly or indirectly.

If you roll over after-tax contributions to a traditional IRA, it is your responsibility to keep track of, and properly report the amount of these after-tax contributions to the IRS. This will enable the nontaxable amount of any future distributions from the traditional IRA to be determined.

Once you roll over after-tax contributions to a traditional IRA, that money CANNOT later be rolled over to an employer plan.

Rollover into an Employer Plan - You can roll over after-tax contributions from the pension plan using a Direct Rollover if the other plan provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You CANNOT, however, roll over after-tax contributions from a pension plan to a 403 (b) tax sheltered annuity or governmental 457 plan. You can, however, roll over after-tax contributions from a Section 403 (b) tax-sheltered annuity to another Section 403 (b) tax-sheltered annuity using a Direct Rollover.

If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the administrator of the pension plan to make a direct rollover on your behalf. Also, you cannot first roll over after-tax contributions to a traditional IRA and then roll over that amount into an employer plan.

Qualified Voluntary Employee Contributions

In addition to before-tax and after-tax salary deductions for the regular retirement system, some employees had salary deductions for an optional Qualified Voluntary Employee Contribution (QVEC) plan. Benefit payments made from a QVEC plan under one of the payment options listed above are eligible for rollover to an IRA, but not to an employer-sponsored retirement plan. Federal income tax withheld from QVEC distributions is optional. You either elect to have tax withheld or not. The applicable tax is calculated using the prescribed IRS tax rates.

TYPES OF PAYMENTS THAT CANNOT BE ROLLED OVER

Payments Spread Over Long Periods

You cannot roll over a taxable distribution if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for your lifetime or life expectancy; your lifetime and your beneficiary's lifetime or life expectancies; or a period of ten or more years.

Required Minimum Payments

Beginning when you reach age 70½ or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you.

Loans Treated as Distributions

The amount of a pension plan loan that becomes a “taxable deemed distribution” because of a default cannot be rolled over.

— DIRECT ROLLOVERS —

HOW TO ARRANGE FOR THE DIRECT ROLLOVER OF YOUR PAYMENT

You can choose a Direct Rollover of all or any portion of your payment that is an eligible rollover distribution as described in the previous sections. In a Direct Rollover, the eligible rollover distribution is paid directly from the retirement system to an IRA or another eligible employer plan that accepts rollovers. If you choose a Direct Rollover, you are not taxed on a payment until you later take it out of the IRA or the other eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your plan benefits if you choose a Direct Rollover.

Direct Rollover to a Traditional IRA

You can open an IRA to receive the Direct Rollover. If you choose to have payment made directly to an IRA, contact the IRA sponsor (usually a financial institution) to find out how to have your payment made in a Direct Rollover to an IRA at that institution. If you are unsure how to invest your money, you can temporarily establish an IRA to receive payment. In choosing an IRA, you may wish to consider whether the IRA you choose will allow you to move all or a part of your payment to another IRA at a later date without penalties or limitation. See IRS Publication 590, *Individual Retirement Arrangements*, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

If you roll over after-tax contributions to a traditional IRA, that money cannot later be rolled over to an employer plan.

Direct Rollover to an Employer Plan

If you are employed by a new employer that has an eligible employer plan, and you want a Direct Rollover to that plan, ask the administrator of that plan whether it will accept your rollover.

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment 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.

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 a plan that accepts your rollover may also be subject to different tax treatment than distributions from the pension plan. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

Even if an employer plan accepts rollovers, it might not accept rollovers of certain types of distributions, such as after-tax amounts. If this is the case, and your distribution includes after-tax amounts, you may wish to roll your distribution over to a traditional IRA or split your rollover amount between the employer plan in which you will participate and a traditional IRA (to split your rollover payment you must have the full amount paid to you in a single check, then do an Indirect Rollover of the before-tax amount to the employer plan and the after-tax amount to the IRA — see page 4 for more about Indirect Rollovers).

If your new employer's plan does not accept rollovers, you can choose a Direct Rollover to a traditional IRA (see above).

Direct Rollover of a Series of Payments

If you receive eligible rollover distributions that are paid in a series of less than ten years, your choice to make or not make a Direct Rollover for a payment will apply to all later payments unless you change your election. You are free to change your election for any later payments in the series. Contact your plan for further information or how to change your election.

Change in Tax Treatment Resulting from a Direct Rollover

The tax treatment of any payment from the eligible employer plan or traditional IRA receiving your Direct Rollover might be different than if you received your benefit in a taxable distribution directly from this pension plan. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment (explained on page 5). However, if you have your benefit rolled over to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or a traditional IRA in a Direct Rollover, your benefit will no longer be eligible for that special treatment.

IF THE PAYMENT IS MADE DIRECTLY TO YOU

If you have the payment made to you, the taxable portion is subject to 20 percent federal income tax withholding. The taxable distribution is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another eligible employer plan that accepts rollovers (see Indirect Rollovers at right). If you do not roll it over, special tax rules may apply.

SPECIAL TAX RULES THAT APPLY IF THE PAYMENT IS MADE DIRECTLY TO YOU

Mandatory Withholding

If any portion of the payment to you is an eligible rollover distribution, the retirement system is required by law to withhold 20 percent of the amount. This amount is sent to the IRS as income tax withholding.

For example, if your eligible rollover distribution is $10,000, only $8,000 will be paid to you because the retirement system must withhold $2,000 as income tax. When you prepare your income tax return for the year, you will report the full $10,000 as a payment from the retirement system. You will report the $2,000 as tax withheld and it will be credited against any income tax you owe for the year.

You may determine the taxable amount of any withdrawal you make by calling the Office of Client Services' Automated Information System (using a touch-tone telephone) at (609) 777-1777.

Voluntary Withholding

If any portion of your payment is not an eligible rollover distribution and is taxable (such as the payment to a non-spousal beneficiary of an active death benefit or Option 1 retirement settlement), the mandatory withholding rules described above **do not apply**. In this case, you may elect to not have the withholding apply to that portion. To elect out of withholding, you must complete a withholding certificate. If you do not complete this form, we will withhold tax at 10 percent.

— INDIRECT ROLLOVERS —

IF THE TAXABLE DISTRIBUTION IS MADE TO YOU AND YOU CHANGE YOUR MIND AFTER RECEIVING IT

If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to an IRA or another eligible employer plan that accepts rollovers — this is known as an Indirect Rollover. **You have a 60-day Indirect Rollover option.** This means that you must make the rollover within 60 days of the date you receive the payment. Once rolled over, the rollover amount will not be taxed until you take it out of the IRA or the employer plan.

You can roll over up to 100 percent of the eligible rollover distribution, including an amount equal to the 20 percent tax withholding. If you choose to roll over 100 percent, you must find other money within the 60-day period to contribute to the IRA or the eligible employer plan to replace the 20 percent that was withheld.

For 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 IRS as income tax withholding. Within 60 days after receiving the $8,000, you may roll over the entire $10,000 to an IRA or eligible rollover plan. To do this, you roll over the $8,000 you received from the retirement system and you add $2,000 from other sources (your savings, a loan, etc.). In this case, the entire $10,000 is not taxed until you take it out of the IRA or employer plan. When you file your income tax return, you report the $2,000 of tax withheld. Alternately, if you roll over only $8,000, the $2,000 not rolled 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. (However, any refund is likely to be larger if you roll over the entire $10,000.)

EARLY WITHDRAWAL PENALTIES FOR TAXABLE DISTRIBUTIONS MADE TO YOU

If you receive a payment before you reach age 59½ and you do not roll it over, in addition to the regular income tax, you may have to pay an extra tax equal to 10 percent of the taxable portion of any payment.

This does not apply if the payment is:

- paid to you because you separate from employment with your employer during or after the year you reach age 55.
- paid to you because you retire due to disability.
- paid to you as equal (or almost equal) payments over your life or life expectancy (or your beneficiary's life or life expectancy).
- used to pay certain medical expenses and does not exceed the amount of your deductible medical expenses.
- paid directly to the government to satisfy a federal tax levy.
- paid to an alternate payee under a qualified domestic relations order.

See IRS *Form 5329* for more information on the additional 10 percent tax.

The additional 10 percent tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) from another type of eligible employer plan or IRA. Any amount rolled over from a governmental 457 plan to another type of eligible employer plan or to a traditional IRA will become subject to the additional 10 percent tax if it is distributed to you before you reach age 59½, unless one of the exceptions listed above applies.

OTHER SPECIAL TAX TREATMENTS YOU SHOULD BE AWARE OF

If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. If it qualifies as a lump-sum distribution, it may be eligible for special tax treatment. A lump-sum distribution is a payment, within one year, of your entire balance under the retirement system that is payable to you because you have reached age 59½ or have separated from service with your employer. For a payment to qualify as a lump-sum distribution, you must have been a participant in the retirement system for at least five years. The special tax treatment for lump-sum distributions is described below.

If You Were Born Before January 1, 1936

Ten-year Averaging - if you receive a lump-sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using ten-year averaging (using 1986 tax rates). This often reduces the tax you owe.

Capital Gain Treatment - in addition, if you receive a lump-sum distribution and you were born before January 1, 1936, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the retirement system (if any) taxed as long term capital gain at a rate of 20 percent.

There are limits on the special tax treatment for lump-sum distributions. For example: You can generally elect this special tax treatment only once in your lifetime and the election applies to all lump-sum distributions that you receive in that same year. You may not elect this special tax treatment if you rolled amounts into this plan from a 403(b) tax-sheltered annuity contract or from an IRA not originally attributable to a qualified employer plan. If you have previously rolled over a payment from the retirement system (or another employer plan), you cannot use this special treatment for later payments. If you roll over your payment to a traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, you will not be able to use this special tax treatment for later payments from that IRA, plan, or annuity. Also, if you roll over only a portion of your payment to a traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, this treatment is not available for the rest of the payment. See IRS *Form 4972* for additional information on lump-sum distributions and how to elect the special tax treatment.

WHO IS AFFECTED BY THESE TAX RULES?

In general, the rules summarized above apply to payments to employees and surviving spouses of employees and to spouses or former spouses who are alternate payees. You are an alternate payee if your interest in the retirement system results from a qualified domestic relations order issued by a court, usually in connection with a divorce or legal separation. If you are a surviving spouse or an alternative payee, you may choose to have a payment that can be rolled over, as described above, paid in a Direct

Rollover to a traditional IRA or to an eligible employer plan or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a traditional IRA or to an eligible employer plan. Thus you have the same choices as the employee.

If you are a beneficiary other than a surviving spouse, you cannot choose a Direct Rollover, and you cannot roll over the payment yourself.

If you are a surviving spouse, an alternate payee, or another beneficiary, payment is generally not subject to the additional 10 percent tax described previously, even if you are younger than 59½.

If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump-sum distributions described previously. If you receive a payment because of the employee's death, you may be able to treat the payment as a lump-sum distribution if the employee met the appropriate age requirements, whether or not the employee had five years of participation in the pension plan.

HOW AN OUTSTANDING LOAN BALANCE AFFECTS YOUR DISTRIBUTION

Your outstanding loan is part of your pension distribution and all or part of your loan may be taxable. As such, 20 percent withholding will be computed on the taxable portion of the loan and deducted from your cash settlement if you choose a Direct Rollover. If you choose to do a Direct Rollover, you have the option of paying off the loan prior to the settlement of your account. If you do not pay off the loan, we will process a partial transfer with available funds in your account after 20 percent withholding has been applied to the outstanding loan. You will then be taxed on the taxable portion of your distribution not directly transferred unless you roll over the balance to a traditional IRA or new employer plan within 60 days of the distribution from the Division of Pensions and Benefits.

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