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Federal Tax Information Disclosure

This notice explains how you can defer federal income tax on your PERS Chapter 238 Program or Oregon Public Service Retirement Plan (OPSRP) Pension Program or Individual Account Program benefits and contains important information you will need before you decide how to receive your benefits.

This notice is provided to you because all or part of the distribution that you will soon receive may be roll over eligible to a traditional IRA or an eligible employer plan. A rollover is a distribution of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. Your distribution cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). An “eligible employer plan” includes a plan qualified under section 401(a) of the Internal Revenue Code, a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, a money purchase plan, a section 403(b) annuity plan, a section 403(b) tax-sheltered annuity plan, and an eligible section 457(b) plan maintained by a governmental employer.

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your distribution 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 after-tax amounts. If this is the case and your distribution includes after-tax amounts, you may wish instead to roll your distribution over to a traditional 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 PERS. Check with the plan administrator that is to receive your rollover before making the rollover.

Introduction: Basic Information

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

- certain distributions can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept your distribution, or
- the distribution can be **paid to you**.

If you choose a **direct rollover**:

- Your distribution will not be taxed in the current year, and no income tax will be withheld.
- Your distribution will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your distribution cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The taxable portion of your distribution will be taxed later when you take it out of the traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from PERS.

If you choose to have a distribution that is eligible for rollover **paid to you**:

- You will receive only 80 percent of the taxable amount of the distribution because PERS is required to withhold 20 percent of the distribution and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your distribution will be taxed in the current year unless you roll it over. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the distribution before age 59 ½, you may have to pay an additional 10 percent tax.
- You can roll over all or part of the distribution by paying it to your traditional IRA or to an eligible employer plan that accepts your rollover within 60 days after you receive the distribution. The amount rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.
- If you want to roll over 100 percent of the distribution to a traditional IRA or an eligible employer plan, **you must replace the 20 percent withheld from the taxable portion of your distribution**. If you roll over only the 80 percent that you received, you will be taxed on the 20 percent that was withheld and not rolled over.

Your right to waive the 30-day notice period. Generally, neither a direct rollover nor a distribution can be made from PERS until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your distribution directly rolled over. If you do not wish to wait until this 30-day notice period ends before we process your distribution, you may waive the notice period by checking the appropriate box on the attached acknowledgement form. Your distribution will then be processed as soon as practical after PERS receives the acknowledgement.

If you fail to affirmatively elect to make or not to make a direct rollover within at least 30 days and no more than 180 days after notice is provided, PERS shall pay the eligible rollover distribution directly to you.

Part 1: Distributions That Can and Cannot Be Rolled Over

Distributions from PERS may be “eligible rollover distributions.” This means that they can be rolled over to a traditional IRA or to an eligible employer plan that accepts rollovers. Distributions from a plan cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account. PERS can tell you what portion of your distribution is an eligible rollover distribution.

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

- a) **Rollover into a traditional IRA.** If you made after-tax contribution to PERS, you can roll over your after-tax contribution 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 report to the IRS on the applicable forms the amount of these after-tax contributions. This will enable the nontaxable amount of any future distributions from the traditional IRA to be determined.

Once you roll over your after-tax contributions to a traditional IRA, those amounts **cannot** later be rolled over to an employer plan.

b) **Rollover into an employer plan.** You can roll over after-tax contributions from PERS to another plan qualified under code section 401(a) or a section 403(a) annuity 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** roll over after-tax contributions to a governmental 457 plan. 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 PERS 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.

The following types of distributions **cannot** be rolled over:

Distributions spread over long periods. You cannot roll over a distribution if it is part of a series of equal (or almost equal) distributions that are made at least once a year and that will last for:

- your lifetime (or a period measured by your life expectancy), or
- your lifetime and your beneficiary's lifetime (or a period measured by your joint life expectancies), or
- a period of 10 or more years.

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

Part 2: Direct Rollover

A **direct rollover** is a direct distribution of the amount of your PERS or OPSRP benefits to a traditional IRA or an eligible employer plan that will accept it. You can choose a **direct rollover** of all or any portion of your distribution that is an eligible rollover distribution, as described in Part 1 above. You are not taxed on any taxable portion of your distribution for which you choose a **direct rollover** until you later take it out of the traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your benefits for which you choose a **direct rollover**. PERS does not allow a **direct rollover** if your distributions for the year are less than \$200.

Direct rollover to a traditional IRA. You can open a traditional IRA to receive the direct rollover. If you choose to have your distribution made directly to a traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your distribution made in a direct rollover to a traditional IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the distributions. 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 distribution 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 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 plan administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a **direct rollover** to a traditional IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the plan administrator before making your decision.

Change in tax treatment resulting from a direct rollover. The tax treatment of any distribution 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 PERS. For example, if you were born before January 1, 1936, you might be entitled to 10-year averaging or capital gain treatment, as explained below. 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. See the sections below titled “Additional 10 percent tax if you are under age 59½” and “Special tax treatment if you were born before January 1, 1936.”

Part 3: Distribution Paid To You

If your distribution can be rolled over (see Part 1 above) and the distribution is made to you in cash, it is subject to 20 percent federal income tax withholding on the taxable portion. The distribution is taxed in the year you receive it unless, within 60 days, you roll it over to a traditional IRA or an eligible employer plan that accepts rollovers. If you do not roll it over, special tax rules apply.

Mandatory withholding. If any portion of your distribution can be rolled over under Part 1 above and you do not elect to make a **direct rollover**, PERS is required by law to withhold 20 percent of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable distribution of \$10,000, only \$8,000 will be paid to you because PERS must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see “Sixty-Day Rollover Option” below), you must report the full \$10,000 as a taxable distribution from PERS. You must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your distributions for the year are less than \$200.

Voluntary withholding. If any portion of your distribution is taxable but cannot be rolled over under Part 1, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, 10 percent will be taken out of this portion of your distribution for federal income tax withholding. To elect out of withholding, ask PERS for the election form (W-4P) and related information.

Sixty-day rollover option. If you receive a distribution that can be rolled over under Part 1, you can still decide to roll over all or part of it to a traditional IRA or to an eligible employer plan that accepts rollovers. If you decide to roll over your distribution, you must contribute the amount of the distribution you received to a traditional IRA or eligible employer plan within 60 days after you receive the distribution. The portion of your distribution that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

You can roll over up to 100 percent of your distribution that can be rolled over under Part 1, including an amount equal to the 20 percent of the taxable portion that was withheld. If you choose to roll over 100 percent of your distribution, you must find other money within the 60-day period to contribute to the traditional IRA or the eligible employer plan to replace the 20 percent that was withheld. On the other hand, if you roll over only the 80 percent of the taxable portion that you received, you will be taxed on the 20 percent that was withheld.

Additional 10 percent tax if you are under age 59 ½. If you receive a distribution before you reach age 59½ and you do not roll it over, you may have to pay an extra tax equal to 10 percent of the taxable portion of the distribution in addition to the regular income tax. The additional 10 percent tax generally does not apply to (1) distributions that are paid after you separate from service with your employer during or after the year you reach age 55, (2) distributions that are paid because you retire due to disability, (3) distributions that are paid as equal (or almost equal) distributions over your life or life expectancy (or you and your beneficiary's lives or life expectancies), (4) distributions that are paid directly to the government to satisfy a federal tax levy, (5) distributions that are paid to an alternate payee under a qualified domestic relations order, or (6) distributions that do not exceed the amount of your deductible medical expenses. 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 applies.

Special tax treatment if you were born before January 1, 1936. If your distribution can be rolled over under Part 1 and you do not roll it over to a traditional IRA or an eligible employer plan, the distribution will be taxed in the year you receive it. However, if the distribution qualified as a "lump-sum distribution," it may be eligible for special tax treatment. A lump-sum distribution is a distribution, within one year, of your entire PERS or OPSRP balance that is payable to you after you have reached age 59½ or because you have separated from service with your employer. For a distribution to be treated as a lump-sum distribution, you must have been a participant in PERS or OPSRP for at least five years before the year in which you received the distribution. The special tax treatment for lump-sum distributions that may be available to you is described below.

10-year averaging. If you received 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 distribution by using "10-year averaging" (using 1986 tax rates). Ten-year averaging often reduces the tax you owe.

Capital gain treatment. If you receive a lump-sum distribution and you were born before January 1, 1936, and you were a participant in PERS before 1974, you may elect to have the part of your distribution that is attributable to your pre-1974 participation in PERS taxed as long-term capital gain at a rate of 20 percent.

There are other 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. If you have previously rolled over a distribution from PERS (or certain other similar plans of the employer), you cannot use this special averaging treatment for later distributions from PERS. If you roll over your distribution to a traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, you will not be able to use special tax treatment for later distributions from that IRA, plan, or annuity. Also, if you roll over only a portion of your distribution to a traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, this special tax treatment is not available for the rest of the distribution. See IRS Form 4972 for additional information on lump-sum distributions and how you elect the special tax treatment.

Part 4: Surviving Spouses, Alternate Payees, and Other Beneficiaries

In general, the rules summarized above that apply to distributions to employees also apply to distributions to surviving spouses of employees and to spouses or former spouses who are “alternate payees.” You are an alternate payee if your interest in PERS results from a “qualified domestic relations order,” which is an order issued by a court, usually in connection with a divorce or legal separation.

If you are a surviving spouse or an alternate payee, you may choose to have a distribution that can be rolled over, as described in Part 1 above, paid in a **direct rollover** to a traditional IRA, to an eligible employer plan, or paid to you. If you have the distribution paid to you, you can keep it or roll it over yourself to a traditional IRA or to an eligible employer plan. You have the same choices as the employee.

If you are a beneficiary other than a surviving spouse or an alternate payee, you cannot choose a direct rollover, and you cannot roll over the distribution yourself.

If you are a surviving spouse, an alternate payee, or another beneficiary, your distribution is generally not subject to the additional 10 percent tax described in Part 3 above, even if you are younger than age 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 as described in Part 3 above. If you receive a distribution because of the member’s death, you may be able to treat the distribution as a lump-sum distribution if the member met the appropriate age requirements, whether or not the member had five years of participation in PERS.

How To Obtain Additional Information

This notice summarizes only federal (not state or local) tax rules that might apply to your distribution. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a distribution of your PERS benefits. You can also find more specific information on the tax treatment of distributions 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, on the IRS website at www.irs.gov, or by calling 800-TAX-FORM.



IAP: Acknowledgement of Receipt of Federal Tax Information Disclosure

This form is strictly for the IAP. Call PERS or visit our website if this is not the form you need.

Section A: Applicant information (Type or print clearly in dark ink. Illegible forms may be returned to applicant. This could delay your request.)

| | | | |
|------------------------------------|----------------------|------------------------|-------------------------|
| First name | MI | Last name | Social Security number* |
| Mailing address (street or PO box) | | Pers number (optional) | |
| City | State | Zip | Country |
| Date of birth (mm-dd-yyyy) | | E-mail (optional) | |
| Day phone number | Evening phone number | | |

You must complete and return this form regardless of the type of payment you elected.

Section B: Receipt Acknowledgement

We have provided a copy of the Federal Tax Information Disclosure for rollover-eligible distributions. You must acknowledge that you have received this disclosure information. You have 30 days from the date of your signature to review this information.

This notice will expire 180 days from the date of your signature. If processing the distribution requires additional time, PERS will send you a new acknowledgement form and disclosure.

PERS cannot process your distribution until after the first 30 days unless you voluntarily waive the 30-day period. If you check the box below to waive the 30-day notice period, PERS will process your distribution as soon as possible after we receive this form. **Note: If you have retired, the first payment will not be made before the first of the month following your effective date of retirement.**

By checking this box, I waive my right to the 30-day notice period to review the Federal Tax Information Disclosure.

Acknowledgement

By signing below, I acknowledge I have received the Federal Tax Information Disclosure. I understand this notice will expire 180 days from the date of my signature. If processing the distribution requires additional time, PERS will send me another Federal Tax Information Disclosure and acknowledgement form to sign.



Signature of applicant (do not print)

Date

Note: If the Federal Tax Information Disclosure does not accompany this form, you may obtain a copy by calling the PERS Customer Service Center at 503-598-7377, toll free at 888-320-7377; or on the PERS website at <http://oregon.gov/pers>.

| Office use only | |
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| <input type="checkbox"/> PERS | <input type="checkbox"/> OPSRP <input checked="" type="checkbox"/> IAP |
| <input type="checkbox"/> Member | <input type="checkbox"/> Alternate payee |
| <input type="checkbox"/> Cross reference member SSN | |
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* Providing your Social Security number (SSN) is voluntary. It will be used for confirmation purposes. If you choose not to supply your SSN, it may take PERS staff longer to process your form.

In compliance with the Americans with Disabilities Act, PERS will provide help filling out this form upon request. You may request help by calling 503-598-7377, toll free 888-320-7377, or TTY 503-603-7766.