LACERA Withdrawal/ Reciprocity

Plan A, B, C & D Members

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Information Regarding Your Retirement Contributions

(Including Rules on Tax Withholding)

GENERAL INFORMATION

If you leave County service for any reason before retirement, you must make a decision about your LACERA retirement contributions. The contributions also include interest earned, which is taxable. You have five choices. You may be able to:

1. Defer receiving your retirement allowance until you are eligible and ready to apply for retirement. You must have five or more years of County retirement service credit (or combined County and reciprocal retirement system service credit — hereinafter referred to as "County retirement service credit") to defer; or

2. Defer receiving your retirement allowance, regardless of your years of service credit, if you become employed in a public agency covered by a reciprocal retirement system within six months after terminating County service; or

3. Request a withdrawal and roll over 100% of the taxable portion of your contributions to an Individual Retirement Account (IRA) or another employer's qualified plan; or

4. Request a withdrawal and roll over a percentage of the taxable portion of your contributions to an IRA or another employer's qualified plan; or

5. Request a withdrawal of your contributions (less 20% federal withholding on the taxable contributions), and have them directly paid to you.

If you terminate employment and do nothing about your contributions:

- You will automatically be placed on deferred status provided you are vested with five or more years of County retirement service credit and do not withdraw or roll over your contributions. Your contributions will continue to earn interest until you are eligible and ready to apply for retirement, or withdraw your funds.

- If you are not vested and do not inform LACERA of your intentions, your contributions will remain on deposit, but will not earn interest. You may lose all rights to claim your contributions after five years.

DEFERRED RETIREMENT BENEFITS

Deferral

As a member of Plan A, B, C, or D you may leave your retirement contributions on deposit with LACERA until you are eligible and ready to apply for retirement or cancel your deferred retirement status. This option is likely to give you the highest total retirement income from LACERA when you retire. If this is your choice, you do not need to return the Withdrawal or Reciprocity Application (unless requesting a reciprocal deferral). (The IRS limits your ability to defer your retirement beyond April 1 of the year following the year in which you reach age 70-1/2.)

You are eligible to defer your retirement allowance if you:

- Have a minimum of five years of County retirement service credit, or
- Become employed in a public agency covered by a reciprocal retirement system within six months after termination of County service, regardless of years of service or retirement plan (see Reciprocal Deferral).

When you defer your retirement allowance, you will have the following rights and obligations:

- You will receive regular interest on

your LACERA contributions, credited each June 30 and December 31.

- You may receive your deferred retirement allowance when any of the following occurs:

  a. you reach age 50 and reach the date on which you would have had 10 years of County retirement service credit had you remained in service on a full-time basis;

  b. you reach the date on which you would have had 30 years of County retirement service credit regardless of your age (20 years if a safety member); or

  c. you reach age 70 regardless of how many years you have worked (age 60 if a safety member prior to April 1, 1997).

- Your contributions will not be taxed until you begin receiving your retirement benefits.

- You may elect in writing to cancel your deferred retirement and withdraw your contributions and interest any time before your retirement date, unless you are covered by reciprocal membership in another retirement system.

- If you are reinstated to County service, you may resume membership in LACERA. Your contribution rate will be based on your entry age at the time you were first placed on deferred status.

- If you move or change your mailing address, you must notify LACERA.

- If you die while you are on deferred status, your beneficiary will receive a one-time lump-sum death benefit that consists of your contributions and interest.

Reciprocal Deferral

As a member of LACERA you may join a reciprocal retirement system and defer your retirement allowance, regardless of your years of service or retirement plan. If you accept employment with another public agency but are not sure if it is reciprocal with LACERA, contact LACERA at (626) 564-6132 or 1-800-786-6464.

You are eligible for a reciprocal deferral if you:

- Become employed in a public agency covered by a reciprocal retirement system within six months after terminating County service, and leave your contributions plus interest on deposit with LACERA, and
- Submit a completed Reciprocity Application to LACERA requesting to defer your retirement and establish reciprocal benefits with another retirement system.

When you become a reciprocal member, you will have the following rights and obligations:

- Your rate of contribution in the new retirement system will be based on the nearest age you were when you became a member in the first system.*
- The service credit you earn under each system will be added together to qualify you to meet the minimum requirement for retirement benefits under all systems.
- If you retire from service, become disabled, or die, your highest earnings under any of these systems will be used to determine the benefits payable by all systems. **Note:** In certain disability cases you may only be entitled to an annuity based on your contributions.
- You must leave your contributions, plus interest, on deposit with LACERA while your employment is covered by a reciprocal retirement system.
- If you move or change your mailing address, LACERA must be notified.

*Note: Some retirement systems use a flat percentage of your compensation to determine your contribution amount.

WITHDRAWALS

A withdrawal from LACERA can be received in two ways:

1. All or any portion of your taxable withdrawal can be rolled over directly to an IRA with a check made out to the IRA or another employer's qualified retirement plan, or

2. All or any portion of your withdrawal can be paid in a check made out directly to you.

The choice you make will affect the taxes you owe. You must designate the IRA or another employer’s qualified plan that will receive the rollover. When you complete the Withdrawal Application, be certain to provide LACERA with the information needed to properly make out the rollover check.

Withdrawal Rolled Over to an IRA or Another Employer’s Qualified Plan

- You will lose all rights to future retirement benefits from LACERA, including disability benefits.

- The rollover portion of your taxable withdrawal is not subject to the 20% federal tax withholding. Your rollover will not be taxed until you take your funds out of your IRA or other employer’s plan.

- If you elect a 100% rollover, you will receive a check for the taxable portion of your withdrawal made payable to your IRA institution or another employer’s plan that accepts your rollover. You are responsible for depositing the check.

- If you elect to roll over less than 100% of your taxable withdrawal, you will receive a check in the amount you specify made payable to your IRA institution or another employer’s plan that accepts your rollover. A check for the remaining taxable balance (less 20% federal withholding) will be made payable to you.

- Nontaxable contributions (money you have already paid taxes on) do not qualify to be rolled over to an IRA, so you will receive a check for these contributions, if any.

What is an IRA?

An IRA (Individual Retirement Account) is a personal savings plan that provides tax advantages while you set aside money for retirement. Generally, you postpone paying taxes on the money in your IRA, including earnings, until you begin withdrawing it.

Although there are several types of IRAs, the information in this booklet pertains to a rollover IRA. A rollover IRA holds money transferred from an employer's qualified plan, such as LACERA's, or from another IRA, until you are ready to retire or withdraw it.

How to set up a rollover IRA.

You can set up a rollover IRA with the following types of organizations:

- Bank or savings and loan association
- Federally insured credit union
- Company offering mutual funds
- Stock brokerage firm
- Insurance company (through an annuity contract)
- Any other entity approved by the IRS to act as IRA trustee or custodian, including some employers or employee associations and labor unions.

Your IRA rollover must be an account in the United States, and it cannot be comingled with other funds. You or your beneficiaries must be the only ones who can receive benefits from the IRA.

Withdrawal amounts that can be rolled over.

Only the taxable portion of your withdrawal is eligible for a rollover. The before-tax (not yet taxed) contributions you have made to LACERA, plus the interest they earned, are taxable when they are paid to you. If you roll them over directly to an IRA or another qualified plan, LACERA is not required to withhold the 20% federal tax. The IRS limits the amount you can roll over after age 70-1/2.

Withdrawal amounts that cannot be rolled over.

Any after-tax (nontaxable) contributions you have made to LACERA cannot be rolled over. Therefore, they will be paid to you. No taxes will be withheld from these contributions.

Excess contributions cannot be rolled over. They may result from:

- An incomplete previous service or plan transfer contract signed prior to August 2, 1995, or
- An overpayment of contributions due to a rate change or plan change.

Any excess contributions you made to LACERA, whether paid with before-tax (taxable) or after-tax dollars, will be paid to you when you terminate service. However, taxes will be withheld from your before-tax contributions.

IRA considerations.

Before you roll over your withdrawal to an IRA, we recommend you speak with your tax advisor and check the terms of the IRA to understand the regulations about withdrawing your funds from the IRA, and if there are any penalties on withdrawal imposed by the IRA sponsor or the IRS.

The 20% federal withholding may not apply to withdrawals from an IRA, therefore, you may wish to consider “parking” your LACERA withdrawal in an IRA until you actually need it. This could avoid the upfront 20% withholding, and you may not owe taxes on it until you withdraw your IRA funds. Again, check with your tax advisor before you roll over your withdrawal to an IRA.

Withdrawals before age 59-1/2.

If you roll over your withdrawal to an IRA and then take the money before 59-1/2, there is a substantial chance of a penalty tax for early withdrawal (10% federal and 2-1/2% for California) in addition to the regular income tax on your IRA rollover money *unless:*

- You roll over the money to another IRA in a way that meets IRS rules.
- You take your IRA money in substantially equal payments over your life or life expectancy, or the joint lives or life expectancies of you and your beneficiary. You must take at least one distribution each year under an IRS-approved distribution method. The distributions must continue for at least five years or until you reach age 59-1/2, whichever is longer, unless you become disabled or die.
- You are disabled, and cannot do any substantial gainful activity because of a physical or mental condition that has lasted or can be expected to last for 12 months or longer, or that is expected to lead to your death.
- You die.

Penalty tax for not withdrawing.

You must start withdrawing your IRA money by April 1 of the year following the year in which you reach age 70-1/2. For example, if you turn age 70 on January 1, you reach age 70-1/2 on July 1. You must start withdrawing your IRA money by April 1 of the following calendar year.

Because an IRA is for retirement, you must withdraw a minimum amount to avoid a severe penalty tax.

Changing IRA Regulations

Tax laws that affect IRA regulations can and do change. You should always refer to your tax advisor to see if any changes have occurred that may affect you.

Withdrawal Paid Directly to You

The taxable portion of your withdrawal, if paid to you, is subject to 20% federal income-tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another employer's qualified plan that accepts rollovers. If you choose to have your withdrawal paid directly to you:

- You will lose all rights to future retirement benefits from LACERA, including disability benefits.
- You will receive only 80% of the taxable portion of your withdrawal amount. LACERA is required by federal law to withhold the remaining 20% and send it to the IRS.
- Depending on your tax status, you may owe more or less in federal income taxes than the 20% withheld. You may file for a refund, **or** pay the additional amount owed to the IRS when you file your federal income tax return.
- The nontaxable portion of your contributions will be refunded to you.

Income tax withholding.

If any part of the taxable portion of your withdrawal is paid to you, LACERA must withhold 20% of that amount for federal income taxes. For example, let's say the taxable portion of your LACERA contributions is $1,000 and you decide to take the money. Because of the withholding rules, you will receive only $800.

Penalty tax for premature withdrawal.

If you terminate County service before the year you reach age 55 and receive your withdrawal from LACERA, the IRS and the state may impose a penalty tax (10% federal and 2-1/2% California state tax) on the taxable portion for premature withdrawal from a retirement fund. In our example, that amount would be $100 for federal and $25 for California. Therefore, a taxable withdrawal of $1,000 leaves you with only $675 after paying the 20% federal withholding and penalties. (The 20% federal withholding applies regardless of your age.) Remember, your real tax liability could be more or less, depending on your particular tax circumstances.

LACERA does not deduct penalty taxes from your withdrawal. You will be responsible for any additional tax owed, or for claiming a refund, when you file your income tax returns.

The penalty tax may not apply in the case of certain disabilities or medical expenses.

Sixty-Day Rollover after receiving your funds.

- If you take a cash withdrawal and then decide you would rather roll over your funds, you may roll over the taxable portion of your withdrawal **within 60 days** from the date on your distribution check by depositing your funds in an IRA, or in another employer's qualified plan.
- If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and not rolled over. If you want to roll over 100% of the taxable portion of your withdrawal to an IRA or another employer's plan, you must find other money to replace the 20% federal withholding that was withheld by LACERA.
- The amount you roll over is not taxable until you take it out of the IRA or employer's plan.

You can roll over only the taxable amount of your contributions. For example, if the taxable portion of your LACERA account is $1,000 and you take a withdrawal, you will receive only $800 because of the 20% federal withholding rules. If you decide to roll over the $800, you will still be taxed on the $200 that has been withheld. To avoid the tax, you will have to add another $200 to your IRA deposit within 60 days of the date that you received the $800. That will give you a rollover of the full $1,000, and no tax will be owed. You will not get back the $200 that was withheld by LACERA until you claim a refund when you file your federal income taxes at the end of the year.

Questions?

More specific information on the tax treatment of payments from qualified retirement plans is available 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 by calling:

1-800 TAX-FORM (1-800-829-3676)

NOTES

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