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 PSRS-1245 (07/2019)



Tax Information for Refunds

1 Lump Sum Distribution

A refund of all of your contributions and interest, within one tax year, represents a qualified lump sum distribution for Federal Income Tax purposes. This means you may be eligible for one or more of the following favorable tax treatments:

Rollover: You may elect to have PSERS directly roll over the taxable portion of your lump sum payment to an "eligible retirement plan" that accepts your rollover. If your financial institution will not accept a direct rollover because of a minimum threshold amount imposed by the financial institution, PSERS will make the payment(s) to you minus a 20 percent mandatory federal withholding tax. PSERS requires a minimum rollover of \$100.00. If the amount to be directly rolled over is less than \$100.00, PSERS will make the payment(s) to you minus a 20 percent mandatory federal withholding tax. You may roll over any part of the taxable amount of this payment to an Individual Retirement Account (IRA) or any other qualified plan within 60 days of the receipt of the distribution.

Special 5-Year Averaging: If you have been a plan participant for at least five years with PSERS and are at least 59 1/2 years of age at the time of distribution, you may be eligible to use the special 5-year averaging method. For additional information, contact a tax consultant.

Special 10-Year Averaging: If you have been a plan participant for at least five years with PSERS and were born before January 1, 1936, you may be eligible to use the special 10-year averaging method. For additional information, contact a tax consultant.

2 Installment Payments Received In More Than One Tax Calendar Year

If you choose to receive your refund in installments, in more than one calendar year, you will not be eligible for either the 5-year or 10-year averaging provisions. However, the taxable portion of these installment payments would be eligible for rollover as described in Section 1. We encourage you to seek advice from your tax consultant.

3 Pennsylvania State Income Tax

No portion of a refund of your contributions and interest is subject to Pennsylvania state income tax.

4 Terminating Service Prior To Age 55

If you terminate service before reaching age 55 and choose to receive a lump sum or installment payments before age 59 1/2, a 10 percent additional retirement tax may apply to the taxable portion of each refund payment received before age 59 1/2. To avoid this 10 percent additional retirement tax, you may wish to do one of the following:

- ◆ Elect direct rollover to an "eligible retirement plan".
- ◆ Roll over the refund payment to an IRA or other qualified plan within 60 days of receipt.
- ◆ Defer payments until age 59 1/2.

5 Return To PSERS Service

If you intend to return to public school service in Pennsylvania at some future date, you may want to consider a rollover of the taxable portion of your refund. You may roll the payment over to an IRA that is specifically designated as a conduit IRA. This means the taxable portion of your distribution from PSERS is rolled over to an IRA used as a special holding account or "conduit" between qualified plans unless otherwise limited. Under the Internal Revenue Code, this may enable you to have funds available to purchase credit for this service time after you re-enroll as an active member of PSERS. If you choose this option, it is important that you do not commingle any other funds with this conduit IRA.

Since PSERS is a qualified plan under the Internal Revenue Code, Section 401(a), this conduit IRA may also be used as a vehicle to roll over to another qualified plan.

Please see your tax consultant for more information on the above options.