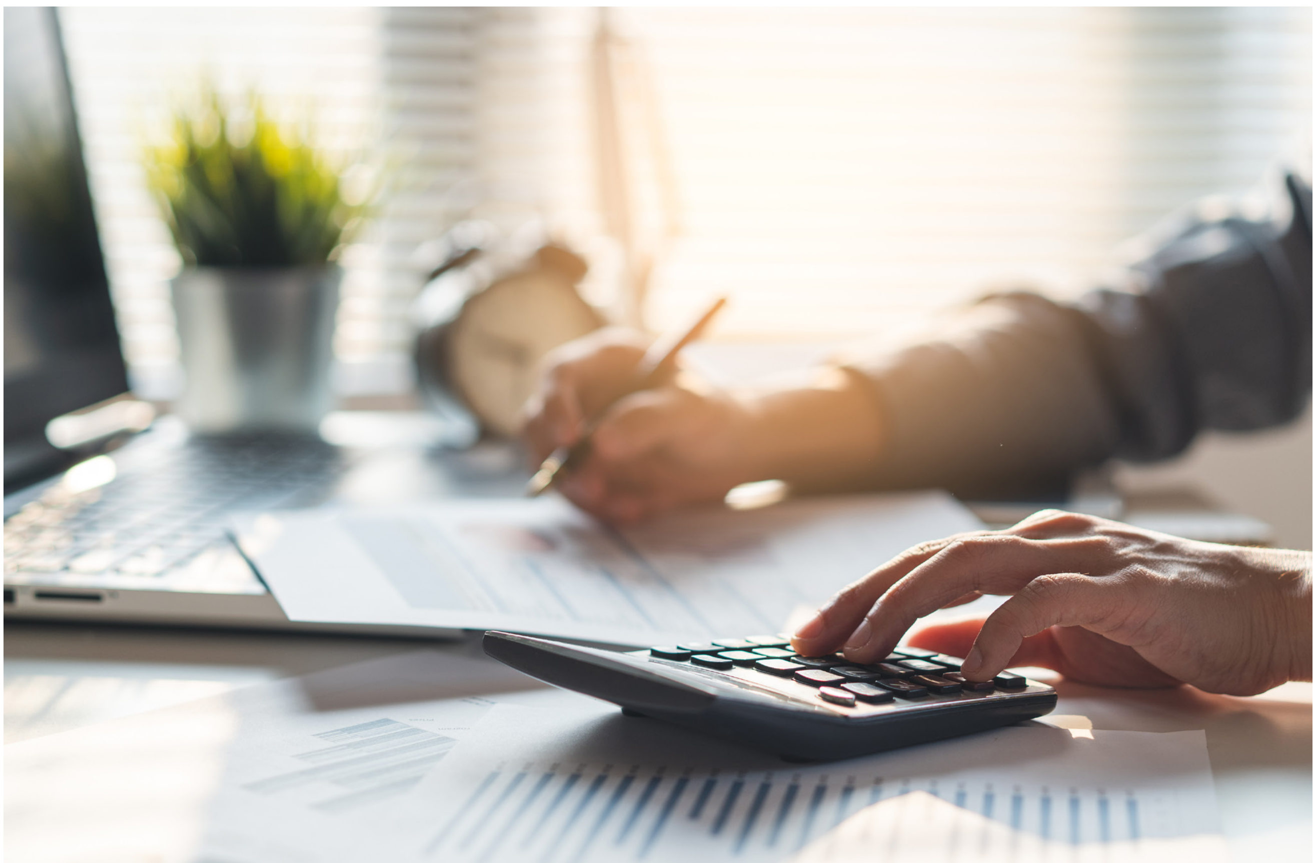
PSERS
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Let's Talk About

Taxes on Your PSERS Benefit



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The Public School Employees' Retirement System (PSERS) provides this document for educational and informational purposes. Information in this document is general in nature, does not cover all factual circumstances, and is not a complete statement of the law or administrative rules. The statements in this document are not binding. In any conflict between the statements in this document and applicable law or administrative rules, the law and administrative rules will prevail.

This pamphlet provides a general description of the taxation methods in effect at the time of publication. For tax regulations specific to your date of retirement, you should obtain Internal Revenue Service (IRS) Publication 575 Pension and Annuity Income (including Simplified Method) or Publication 939 General Rule for Pensions and Annuities. IRS publications are available on the IRS website at irs.gov or by contacting the IRS at 800.829.3676. PSERS cannot provide individual tax advice. For tax guidance and advice, you should consult with a tax professional.

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Glossary of Terms

Defined Benefit (DB) Contributions – DB contributions consist of pickup contributions, Pre-87 Investment in Contract, and Post-86 Investment in Contract.

Defined Contribution (DC) Contributions & Earnings – DC contributions consist of mandatory and voluntary contributions. Earnings (or losses) are based on the performance of the investment vehicles you select. Only Class T-G, Class T-H, and Class DC have a defined contribution component to their retirement plan.

Interest – Interest applies to earnings on your DB contributions. By law, your DB contributions accrue interest at a rate of 4% compounded annually for active, inactive, and vested members. Please note that inactive non-vested members do not earn interest after termination.

Pickup Contributions – Pickup Contributions are contributions deducted from your earnings after December 31, 1982, excluding payroll deductions for the payment of a debt. Pickup contributions are excluded from your gross income for federal tax purposes only and are federally tax-deferred. You pay federal taxes on these contributions when received as either a retirement benefit or a refund.

Pre-87 Investment in Contract – Pre-87 Investment in Contract are contributions received by PSERS prior to January 1, 1983, and all purchase of service payments received by PSERS before January 1, 1987. You have already paid federal taxes on these contributions and will, therefore, not be taxed again when distributed.

Post-86 Investment in Contract – Post-86 Investment in Contract are all purchase of service and frozen annuity debt payments received by PSERS after December 31, 1986. You have already paid federal taxes on these contributions and will, therefore, not be taxed again when distributed.

Required Beginning Age (RBA) - The IRS determines the Required Beginning Age based on your date of birth. Refer to the PSERS' website at *pa.gov/PSERS* to find your Required Beginning Age.

Required Minimum Distribution (RMD) – The Required Minimum Distribution is the amount of money that must be withdrawn from PSERS after a member reaches their RBA.

Total Investment in Contract – Total Investment in Contract contributions includes both Pre-87 Investment in Contract and Post- 86 Investment in Contract.

Refunds

A refund of your Defined Benefits (DB) contributions and interest is your only option if you terminate from all school service and you are not vested. You are eligible only for a refund if you do not meet vesting requirements for your membership class.

Class	Vesting Requirements
T-C* T-D	• You have at least five years of service with at least one year of qualifying service rendered • You are age 62 or older at termination of employment with at least one year of qualifying service
T-E T-F	• You have at least 10 years of qualifying service • You are age 65 or older at termination of employment with at least three years of service
T-G T-H	• You have at least 10 years of qualifying service • You are age 67 or older at termination of employment with at least three years of service

**Special conditions may apply for those who terminated active PSERS-covered employment on or prior to July 1, 2001. Contact PSERS for more information.*

***Class T-G, Class T-H, and Class DC members have a DC component. Please refer to the "Taxing Your DC Contribution" section for more information.*

Federal Tax

PSERS must withhold a mandatory 20% federal withholding tax on pickup contributions and interest that are refunded. Your actual tax liability may be more or less than 20%, based on your total taxable income for the year in which you receive the payment. No tax will be withheld from any investment in contract contributions because taxes were previously paid on these contributions.

State & Local Income Taxes

If you reside in Pennsylvania, no portion of your refund is subject to Pennsylvania state or local income tax. If you reside in another state, you must check with your state and local authorities to determine the taxability of payments made to you outside of Pennsylvania. If the state where you reside taxes your refund, you must pay your taxes directly to that state's taxing authority. PSERS cannot withhold state taxes from your refund payment.

Direct Rollover of a Refund

You may elect to have PSERS directly roll over your refund into an IRA or other eligible retirement plan. This would defer taxation of the refund until you withdraw the money from that account or plan.

If you receive a refund from PSERS and later decide you want to roll over the money into an IRA or other eligible retirement plan, you have 60 days to do so. This is referred to as a non-direct rollover. More information available in the "Rollover Information for Refunds and Retirements" section. You cannot return the payment to PSERS to reissue to an IRA or other eligible retirement plan.

Refunds & IRS *Form 1099-R*

The IRS *Form 1099-R* is used when preparing your annual federal income tax return. PSERS will automatically send your *Form 1099-R* by the end of January following the calendar year in which your refund was paid. Refer to "Tax Statement *Form 1099-R* for DB Benefit" for more information.

Defined Benefit (DB) Retirement Benefit

If you elect to withdraw any portion of your contributions and interest at retirement, this type of payment is referred to as a partial lump-sum payment. The IRS considers this type of payment a non-periodic payment.

Monthly retirement payments are considered periodic payments. Any retroactive retirement payment may be treated as either periodic or non-periodic based on the nature of the payment.

Federal Tax

Your PSERS monthly retirement benefit is subject to federal taxes.

Refer to "Electing the Amount of Federal Withholding from Your DB Monthly Retirement Benefit" for information on how to deduct federal taxes from your monthly retirement benefit.

State & Local Income Taxes

Monthly retirement benefit payments from PSERS are exempt from Pennsylvania state and local taxes. If you reside in another state, you must check with your state and local authorities to determine the taxability of payments made to you outside of Pennsylvania. If the state where you reside taxes your benefit, you must pay your taxes directly to that state's taxing authority. PSERS cannot withhold state taxes from your monthly retirement benefit.

Special Rule for Partial Lump-Sum Payments

The IRS has various rules for taxing partial lump-sum payments. The federal Technical and Miscellaneous Revenue Act of 1988 allows a PSERS retiree to immediately exclude an amount up to the Pre-87 Investment in Contract from federal taxation.

To qualify you must either:

- Receive your Pre-87 Investment in Contract as a partial lump-sum payment at the time of your first retirement benefit payment.
- Directly roll over your Pre-87 Investment in Contract as a partial lump-sum payment at the time of your first retirement distribution to a plan that will accept rollovers of previously taxed funds.

Pre-87 Investment in Contract - If you elect to receive or roll over an amount less than the total Pre-87 Investment in Contract with your first partial lump-sum payment, you will recover the remainder of your Investment in Contract over the life of your annuity using the Simplified Method..

Post-86 Investment in Contract Recovery - If you elect to withdraw your Post-86 Investment in Contract, the amount is subject to the regular 20% federal tax withholding. Under the Simplified Method, the taxes that you paid on your Post-86 Investment in Contract will result in a small portion of your monthly benefit being nontaxable in the year that you receive it.

Simplified Method

The application of the Simplified Method results in a monthly tax exclusion based on the amount of your Investment in Contract and the expected number of monthly payments as established by the IRS.

This exclusion will remain until you have reached the expected number of monthly payments as established by the IRS.

The exclusion will be applied if you have Investment in Contract and either:

- Elect to receive only a monthly benefit.
- Have any Investment in Contract remaining in your PSERS account after you receive a partial lump-sum payment with your first annuity payment.

How it Works

The Simplified Method determines the nontaxable and taxable amount of each monthly retirement check.

If you retired and selected the Maximum Option or Option 1:
The remaining Investment in Contract money is divided by the number of anticipated monthly payments the IRS projects you will receive over the lifetime of the annuity, based on your age at the time of retirement. After you have recovered the total amount of your Investment in Contract, any subsequent monthly annuity payments are fully taxable.

If you retired and selected Options 2, 3, or the Special Option 4:
The remaining Investment in Contract money is divided by the number of anticipated monthly payments the IRS projects you will receive over the lifetime of the annuity, based on your age and your survivor annuitant's age at the time of retirement. After you have recovered the total amount of your Investment in Contract, any subsequent monthly annuity payments are fully taxable.

Disability Retirement

If you retire under a PSERS disability retirement benefit, your monthly retirement benefits are taxed the same as regular monthly retirement benefits.

Disability and Pre-87 Investment in Contract Contributions

Disability retirement does not allow for the withdrawal of member contributions and interest in a partial lump-sum payment. Any Pre-87 Investment in Contract contributions a disability retiree may have in PSERS would have the Simplified Method applied to the taxable rate of the monthly retirement benefit.

Rollover of Refunds and Retirement Partial Lump-Sums

Your lump-sum (refund) or partial lump-sum (retirement) is eligible to be rolled over into an “Eligible Retirement Plan.”

Eligible Retirement Plans

Your funds can be rolled over into the following eligible retirement plans:

- Traditional Individual Retirement Account (IRA)
- Internal Revenue Code (“IRC”) Section 403(b) tax sheltered annuity
- Governmental IRC Section 457(b) deferred compensation program
- IRC Section 403(a) annuity plan
- IRC Section 401(K) Plan
- Other qualified plan as described in IRC Section 401(a)

Ways to Roll Over Your Funds

There are two ways to roll over your contributions and interest:

Direct Rollovers – You authorize PSERS to send the rollover directly to an IRA or other eligible retirement plan’s administrator by submitting one of the following:

- The *Authorization for Direct Rollover (Refund)* (PSRS-1243) form with the *Application for Refund*
- The *Authorization for Direct Rollover (Retirement)* (PSRS-1264) form with the *Application for Retirement*

PSERS will not roll over your money using a private company’s authorization form.

Non-Direct Rollovers – If you choose to have a lump-sum or partial lump-sum portion(s) paid to you, PSERS must withhold 20% federal withholding tax on the taxable portion of your payment. You have 60 days to rollover the funds to an IRA or other eligible retirement plan. You may be able to recover your withheld taxes when you file your federal income tax return.

For a non-direct rollover, complete the rollover with your financial institution. Your financial institution will provide you with the necessary forms to complete a non-direct rollover. You cannot return the payment to PSERS to reissue to an eligible retirement plan.

If you decide on a non-direct rollover, you will be rolling over 80% of your lump-sum or partial lump-sum payment. To roll over 100% of the taxable portion of your lump-sum or partial lump-sum payment, you will have to replace the money withheld for federal taxes.

Rolling Over Your Monthly Benefit – The IRS does not permit you to roll over your monthly retirement benefits. You may only roll over contributions and interest (partial lump-sum payments).

Special Federal Tax Rules

Required Minimum Distributions

The Internal Revenue Service (IRS) mandates that Required Minimum Distributions (RMD) distributions begin to be distributed by April 1 of the calendar year following the year in which a terminated member reaches their Required Beginning Age or when an active member terminates service after having attained their Required Beginning Age.

The IRS determines the Required Beginning Age based on your date of birth. Refer to the PSERS website at *pa.gov/PSERS* to find your Required Beginning Age. If there is a failure to comply with the RMD requirements, Federal law imposes a penalty tax payable by you equal to 25% on the amount not distributed. If you have questions regarding RMD, we encourage you to seek advice from your tax consultant or the IRS.

Early Distribution Tax

The IRS imposes an additional 10% tax on early distributions. The tax on early distributions is on the taxable portion of any lump-sum payment(s).

You are not subject to the tax on early distributions if one of the following applies:

- You roll over your lump-sum distribution into an eligible retirement plan.
- You retire and choose to receive an amount not to exceed your Pre-87 Investment in Contract in a single partial lump-sum disbursement at the time of first payment.

PSERS does not deduct the tax on an early distribution from your partial lump-sum payment. You are responsible for paying the 10% tax on early distributions directly to the IRS. (See IRS *Form 5329*.)

Retirement Before Age 55

You are subject to the early distribution tax if you are under age 55 and do not reach age 55 in the year that you terminate service and choose to receive any partial lump-sum payment(s) before reaching age 59½.

Retirement On or After Age 55

If you are at least age 55 in the year you terminate service, the tax on early distributions does not apply to you.

Retirement at Age 75 or Older

Special taxation rules apply if you terminate employment and retire at age 75 or older. Refer to IRS *Publication 575 Pension and Annuity Income* and *Publication 939 General Rule for Pensions and Annuities* for specific information for members retiring at age 75 or older.

Electing Federal Withholding from Your DB Monthly Retirement Benefit

Electing Tax Withholding

At the time you complete your *Application for Retirement*, you will have the opportunity to elect your federal tax withholding. You may select the default withholding of "Single with No Adjustments" on your retirement application or complete a *Form W-4P Federal Tax Withholding Certificate for Annuity Payments* (PSRS-996) to withhold a different amount.

Electing Not to Withhold Taxes

You may elect to have no taxes withheld from your monthly check, but this does not release you from your tax liability. The IRS may require you to make quarterly estimated tax payments to avoid an IRS-imposed penalty.

Default Tax Withholding Information

If you do not complete the Federal Income Tax section of the PSERS *Application for Retirement*, PSERS must withhold federal income taxes from your monthly retirement benefit based on the IRS Tax Tables using "Single with No Adjustments."

Changing Your Withholding

You may change your federal withholding amount at any time through the Member Self-Service (MSS) Portal. Alternatively, you can submit a *Form W-4P Federal Tax Withholding Certificate for Annuity Payments* to PSERS. This form is available on the PSERS website or by contacting PSERS. You may also submit an Internal Revenue Service (IRS) *Form W-4P*.

When you change your federal withholding amount with PSERS, your new selection supersedes any previous tax-withholding request you made. Please keep this in mind, especially if you are requesting the withholding of an additional dollar amount.

The *Form W-4P* will assist you in calculating how much federal tax to withhold from your gross monthly retirement benefit.

Example:

You had previously elected to withhold an extra federal withholding of $25 in addition to the standard withholding for your filing status. Later, you decide you need an additional $50 of federal withholding withheld per month in addition to the amount already being withheld. When you complete the new *Form W-4P*, you must complete it as though you had never previously asked for an additional amount. You would complete the form with $75 in extra federal withholding in Step 4 (c).

Tax Statement *Form 1099-R* for DB Benefit

Purpose of the IRS *Form 1099-R*

The IRS *Form 1099-R* is sent each January to document the benefits received in the previous calendar year. It provides a breakdown of the following information: gross distribution, taxable amount, federal income tax withheld, and Investment in Contract recovered during the year, if any. Use it when preparing your annual federal income tax return.

You may receive more than one IRS *Form 1099-R* for the tax year depending on the applicable distribution code. PSERS must report different types of retirement payments on separate forms. For instance, if you retired and had PSERS roll over taxable contributions and interest, you will receive multiple forms for the tax year in which the rollover occurred.

The contributions and interest you make to your PSERS account while an active member are tax-deferred until you withdraw the funds. You will not receive a *Form 1099-R* for the interest your contributions earn each year.

Form 1099-R Codes

IRS *Form 1099-R*, Box 7, identifies the distribution you received from PSERS during the previous tax year. The following are the codes and the explanation of the payment:

1	• An early (premature) distribution for which there is no known exception. (See IRS *Form 5329*.)
2	• An early distribution where you have not reached age 59 1/2.
4	• A death benefit payment.
7	• A normal distribution (usually monthly retirement benefit payments).
A	• A payment that may qualify for 10- year averaging.
G	• A payment made as a direct rollover.

Receiving the *Form 1099-R*

PSERS automatically sends your *Form 1099-R* by the end of each January. If you have not received your *Form 1099-R* by February 10, you can obtain a copy through the MSS Portal or by contacting PSERS.

If you are enrolled in Paperless Delivery, you will receive your *Form 1099-R* electronically. Remember to keep your address current with PSERS. You may update your address at any time through the MSS Portal.

Reminders

PSERS receives many calls inquiring as to why there is a difference in the gross distribution and the taxable amount on the *Form 1099-R*. The possible reasons are:

- There was tax-free Pre-87 Investment in Contract money paid during the tax year. Because taxes were already paid on this money, the payment is included in the gross distribution but excluded from the taxable amount since no tax is due.
- A portion of the monthly retirement benefit qualified for the Simplified Method.
- There was an excess refund showing a difference between gross amounts and taxable amounts as only the interest earnings are taxable.

Receiving a Defined Contribution (DC) Distribution

When you terminate all public school employment, you may be able to keep your contributions and earnings invested in the DC Plan or receive a distribution of your DC account as a lump-sum payment, partial lump-sum payment, or installments.

Federal Tax

Your PSERS DC distribution is subject to federal taxes. The IRS requires PSERS' Third-Party Administrator (TPA) to withhold 20% for federal withholding tax on all taxable distributions from the DC Plan made directly to you. Your actual tax liability may be more or less than 20%, based on your age and your total taxable income for the year in which you receive the distribution. Refer to "Electing the Amount of Federal Withholding from Your DC Distribution" for information on how to deduct federal taxes from your monthly distribution. No tax will be withheld from any after-tax contributions made to the DC Plan because taxes were previously paid on those contributions.

Your DC distribution is also subject to the Special Federal Tax Rules. (Refer to "Special Federal Tax Rules" for more information.) PSERS' TPA does not deduct the tax on early distribution from your lump-sum payment but can allow you to choose a federal tax withholding percentage greater than the mandatory 20%. (See IRS *Form 5329*.)

State & Local Taxes

Your PSERS DC distribution is exempt from Pennsylvania state and local taxes. If you reside in another state, you must check with your state and local authorities to determine the taxability of payments made to you outside of Pennsylvania. If the state where you reside taxes your distribution, you must pay your taxes directly to that state's taxing authority. PSERS cannot withhold state taxes from your monthly distribution.

Direct Rollover of a Distribution

You may elect to have PSERS' TPA directly roll over your distribution into an eligible retirement plan. This election would defer taxation until you withdraw the money from that account or plan. When you request to roll over your distribution, you will receive a more detailed notice regarding taxes on your rollover. Please refer to the Appendix for a sample of this notice.

If you receive a distribution from your DC account and later decide you want to roll over the money into an IRA or other eligible retirement plan, you have 60 days from the distribution date to do so. This is referred to as a non-direct rollover. (Refer to "Rollover of Refunds and Retirement Partial Lump-Sums" for more information.) You cannot return the payment to PSERS' TPA to reissue to an eligible retirement plan.

Electing the Amount of Federal Withholding from Your DC Distribution

You may elect your tax withholding on the distribution request form or change discuss your tax withholding options for installment payments at any time via your DC online account or by calling 1.833.432.6627.

Tax Statement *Form 1099-R* for DC Benefit

PSERS' TPA will automatically send your *Form 1099-R* by January 31 following the calendar year in which you received your DC distribution(s). Refer to "Tax Statement *Form 1099-R*" for more information.

Contacting PSERS

Website	Call or Fax	Send us a Secure Message through your MSS Account!	Harrisburg Headquarters
pa.gov/PSERS Register for PSERS' Member Self-Service (MSS) Portal to access your retirement account online, anytime!	**Mon-Fri: 8 a.m. - 5 p.m.** **Toll-Free:** 1.888.773.7748 **Local Calls:** 717.787.8540 **Fax:** 717.772.3860	Don't have an MSS Account? Complete the Contact Form on our website.	PSERS 5 N 5th Street Harrisburg PA 17101-1905

Need help with your PSERS DC account?

Call us at 833.432.6627 Mon-Fri 8a.m. - 8p.m., or access your DC account through the PSERS MSS Portal!

Appendix - Sample Rollover Options

Your Rollover Options in PSERS DC Plan

You are receiving this notice because all or a portion of a payment you are receiving from the Plan is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover.

This notice describes the rollover rules that apply to payments from the Plan that are not from a designated Roth account (a type of account in some employer plans that is subject to special tax rules). If you also receive a payment from a designated Roth account in the Plan, you will be provided a different notice for that payment, and the Plan administrator or the payor will tell you the amount that is being paid from each account.

Rules that apply to most payments from a plan are described in the “General Information About Rollovers” section. Special rules that only apply in certain circumstances are described in the “Special Rules and Options” section.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?

You will be taxed on a payment from the Plan if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (generally, distributions made before age 59½), unless an exception applies. However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception to the 10% additional income tax applies).

What types of retirement accounts and plans may accept my rollover?

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, IRAs are not subject to spousal consent rules, and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

<u>If you do a direct rollover,</u> the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

<u>If you do not do a direct rollover</u>, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. Generally, you will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the payment for federal income taxes (up to the amount of cash and property received other than employer stock). This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

How much may I roll over?

If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Required minimum distributions after age 70½ (if you were born before July 1, 1949), after age 72 (if you were born after June 30, 1949), or after death;
- Hardship distributions;
- Payments of employee stock ownership plan (ESOP) dividends;
- Corrective distributions of contributions that exceed tax law limitations;
- Loans treated as deemed distributions (for example, loans in default due to missed payments before your employment ends);
- Cost of life insurance paid by the Plan;

- Payments of certain automatic enrollment contributions that you request to withdraw within 90 days of your first contribution;
- Amounts treated as distributed because of a prohibited allocation of S corporation stock under an ESOP (also, there generally will be adverse tax consequences if you roll over a distribution of S corporation stock to an IRA); and
- Distributions of certain premiums for health and accident insurance.

The Plan administrator or the payor can tell you what portion of a payment is eligible for rollover.

If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?
If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax applies to the part of the distribution that you must include in income and is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the Plan:
- Payments made after you separate from service if you will be at least age 55 in the year of the separation;
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Payments from a governmental plan made after you separate from service if you are a qualified public safety employee and you will be at least age 50 in the year of the separation;
- Payments made due to disability;
- Payments after your death;
- Payments of ESOP dividends;
- Corrective distributions of contributions that exceed tax law limitations;
- Cost of life insurance paid by the Plan;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a qualified domestic relations order (QDRO);
- Payments of up to $5,000 made to you from a defined contribution plan if the payment is a qualified birth or adoption distribution;
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year);
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days;
- Payments of certain automatic enrollment contributions that you request to withdraw within 90 days of your first contribution;
- Payments excepted from the additional income tax by federal legislation relating to certain emergencies and disasters; and
- Phased retirement payments made to federal employees.

If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?
If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions on the part of the distribution that you must include in income, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:
- The exception for payments made after you separate from service if you will be at least age 55 in the year of the separation (or age 50 for qualified public safety employees) does not apply;
- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a taxfree transfer may be made directly to an IRA of a spouse or former spouse); and
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.

Additional exceptions apply for payments from an IRA, including:
- Payments for qualified higher education expenses;
- Payments up to $10,000 used in a qualified first-time home purchase; and
- Payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

Will I owe State income taxes?
This notice does not address any State or local income tax rules (including withholding rules).

SPECIAL RULES AND OPTIONS

If your payment includes after-tax contributions

After-tax contributions included in a payment are not taxed. If you receive a partial payment of your total benefit, an allocable portion of your after-tax contributions is included in the payment, so you cannot take a payment of only after-tax contributions. However, if you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in the payment. In addition, special rules apply when you do a rollover, as described below.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). If you do a direct rollover of only a portion of the amount paid from the Plan and at the same time the rest is paid to you, the portion rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of $12,000, of which $2,000 is after-tax contributions. In this case, if you directly roll over $10,000 to an IRA that is not a Roth IRA, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions. If you do a direct rollover of the entire amount paid from the Plan to two or more destinations at the same time, you can choose which destination receives the after-tax contributions.

Similarly, if you do a 60-day rollover to an IRA of only a portion of a payment made to you, the portion rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of $12,000, of which $2,000 is after-tax contributions, and no part of the distribution is directly rolled over. In this case, if you roll over $10,000 to an IRA that is not a Roth IRA in a 60-day rollover, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for aftertax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

If you miss the 60-day rollover deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. Under certain circumstances, you may claim eligibility for a waiver of the 60-day rollover deadline by making a written self-certification. Otherwise, to apply for a waiver from the IRS, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements* (IRAs).

If your payment includes employer stock that you do not roll over

If you do not do a rollover, you can apply a special rule to payments of employer stock (or other employer securities) that are either attributable to after-tax contributions or paid in a lump sum after separation from service (or after age 59½, disability, or the participant's death). Under the special rule, the net unrealized appreciation on the stock will not be taxed when distributed from the Plan and will be taxed at capital gain rates when you sell the stock. Net unrealized appreciation is generally the increase in the value of employer stock after it was acquired by the Plan. If you do a rollover for a payment that includes employer stock (for example, by selling the stock and rolling over the proceeds within 60 days of the payment), the special rule relating to the distributed employer stock will not apply to any subsequent payments from the IRA or, generally, the Plan. The Plan administrator can tell you the amount of any net unrealized appreciation.

If you have an outstanding loan that is being offset

If you have an outstanding loan from the Plan, your Plan benefit may be offset by the outstanding amount of the loan, typically when your employment ends. The offset amount is treated as a distribution to you at the time of the offset. Generally, you may roll over all or any portion of the offset amount. Any offset amount that is not rolled over will be taxed (including the 10% additional income tax on early distributions, unless an exception applies). You may roll over offset amounts to an IRA or an employer plan (if the terms of the employer plan permit the plan to receive plan loan offset rollovers).

How long you have to complete the rollover depends on what kind of plan loan offset you have.

If you have a qualified plan loan offset, you will have until your tax return due date (including extensions) for the tax year during which the offset occurs to complete your rollover. A qualified plan loan offset occurs when a plan loan in good standing is offset because your employer plan terminates, or because you sever from employment. If your plan loan offset occurs for any other reason (such as a failure to make level loan repayments that results in a deemed distribution), then you have 60 days from the date the offset occurs to complete your rollover.

If you were born on or before January 1, 1936
If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

If your payment is from a governmental section 457(b) plan
If the Plan is a governmental section 457(b) plan, the same rules described elsewhere in this notice generally apply, allowing you to roll over the payment to an IRA or an employer plan that accepts rollovers. One difference is that, if you do not do a rollover, you will not have to pay the 10% additional income tax on early distributions from the Plan even if you are under age 59½ (unless the payment is from a separate account holding rollover contributions that were made to the Plan from a tax-qualified plan, a section 403(b) plan, or an IRA). However, if you do a rollover to an IRA or to an employer plan that is not a governmental section 457(b) plan, a later distribution made before age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies). Other differences include that you cannot do a rollover if the payment is due to an "unforeseeable emergency" and the special rules under "If your payment includes employer stock that you do not roll over" and "If you were born on or before January 1, 1936" do not apply.

If you are an eligible retired public safety officer and your payment is used to pay for health coverage or qualified long-term care insurance
If the Plan is a governmental plan, you retired as a public safety officer, and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income Plan payments paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of $3,000 annually. For this purpose, a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew.

If you roll over your payment to a Roth IRA
If you roll over a payment from the Plan to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. In general, the 10% additional income tax on early distributions will not apply. However, if you take the amount rolled over out of the Roth IRA within the 5-year period that begins on January 1 of the year of the rollover, the 10% additional income tax will apply (unless an exception applies).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to $10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), and IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).

If you do a rollover to a designated Roth account in the Plan
You cannot roll over a distribution to a designated Roth account in another employer's plan.
However, you can roll the distribution over into a designated Roth account in the distributing Plan.
If you roll over a payment from the Plan to a designated Roth account in the Plan, the amount of the payment rolled over (reduced by any after-tax amounts directly rolled over) will be taxed. In general, the 10% additional income tax on early distributions will not apply. However, if you take the amount rolled over out of the Roth IRA within the 5-year period that begins on January 1 of the year of the rollover, the 10% additional income tax will apply (unless an exception applies).

If you roll over the payment to a designated Roth account in the Plan, later payments from the designated Roth account that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a designated Roth account is a payment made both after you are age 59½ (or after your death or disability) and after you have had a designated Roth account in the Plan for at least 5 years. In applying this 5-year rule, you count from January 1 of the year your first contribution was made to the designated Roth account. However, if you made a direct rollover to a designated Roth account in the Plan from a designated Roth account in a plan of another employer, the 5-year period begins on January 1 of the year you made the first contribution to the designated Roth account in the Plan or, if earlier, to the designated Roth account in the plan of the other employer. Payments from the designated Roth account that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies).

If you are not a Plan participant

Payments after death of the participant. If you receive a distribution after the participant's death that you do not roll over, the distribution generally will be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the deceased participant was born on or before January 1, 1936.

If you are a surviving spouse. If you receive a payment from the Plan as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½ (if you were born before July 1, 1949) or age 72 (if you were born after June 30, 1949).

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½ (if the participant was born before July 1, 1949) or age 72 (if the participant was born after June 30, 1949).

If you are a surviving beneficiary other than a spouse. If you receive a payment from the Plan because of the participant's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a QDRO. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a QDRO, you generally have the same options and the same tax treatment that the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). However, payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Other special rules

If a payment is one in a series of payments for less than 10 years, your choice whether to do a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than $200 (not including payments from a designated Roth account in the Plan), the Plan is not required to allow you to do a direct rollover and is not required to withhold federal income taxes. However, you may do a 60-day rollover.

Unless you elect otherwise, a mandatory cashout of more than $1,000 (not including payments from a designated Roth account in the Plan) will be directly rolled over to an IRA chosen by the Plan administrator or the payor. A mandatory cashout is a payment from a plan to a participant made before age 62 (or normal retirement age, if later) and without consent, where the participant's benefit does not exceed $5,000 (not including any amounts held under the plan as a result of a prior rollover made to the plan).

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information on special rollover rights related to the U.S. Armed Forces, see IRS Publication 3, Armed Forces' Tax Guide. You also may have special rollover rights if you were affected by a federally declared disaster (or similar event), or if you received a distribution on account of a disaster. For more information on special rollover rights related to disaster relief, see the IRS website at www.irs.gov.

FOR MORE INFORMATION

You may wish to consult with the Plan administrator or payor, or a professional tax advisor, before taking a payment from the Plan. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs); IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.

Notice of Your Right to Defer Distributions

The Rules under Section 411(a) of the Internal Revenue Code require the delivery of this notice prior to the payment of distributions from 401(k) and other retirement plans subject to ERISA. If you are a participant in a non-ERISA plan, this notice is not legally required, but still provides important information that merits your consideration.

You may elect to (1) leave the assets in your Plan account until a later date (subject to IRS minimum distribution requirements), (2) take a distribution of your assets from your Plan account, or (3) roll over your assets from your Plan account to another retirement plan vehicle (including an IRA). When considering which alternative is best for you, you should consider the economic consequences which include evaluating any new investment options available to you if you move your account monies and the respective investment fees and expenses associated with any new investment option.

If you elect to take a distribution and not roll the assets over from your Plan account to an IRA or other retirement plan, you typically lose the opportunity to continue accumulating earnings on your plan account on a tax-deferred basis (tax-free for Roth contributions) for retirement. This means that by taking a cash distribution now and being taxed on it, you potentially may end up with lower retirement income even if you invest the after tax distribution.

Information on administrative fees and transactional fees assessed to your Plan account can be obtained from the following documents (Note: not all documents may apply to you):

- Summary Plan Description (SPD) for ERISA plans,
- Enrollment kit,
- Prospectus summary,
- Disclosure booklet, or
- Your individual contract.

To request a copy of the SPD, disclosure booklet and enrollment kit, call your local Voya representative, your employer or plan administrator. To request a copy of the prospectus summary and individual contract, call Customer Service, using the toll-free number provided to you in your distribution package or on your Voya statement of account. Administrative and transactional fees assessed on your Plan account will be reflected on your Voya statement of account.

Information on the investment options available to you under the Plan today, including related fees or expenses, can be obtained from the Fund Performance and Fund Fact Sheets available online at www.voyaretirementplans.com or by calling us.

To learn more about your distribution options under the Plan please call us. To inquire about the tax consequences of each option, please contact a professional tax advisor.

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