LACERA Los Angeles County Employees Retirement Association
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SPECIAL TAX NOTICE REGARDING BENEFIT PAYMENT

You are receiving this notice because all or a portion of the Benefit Payment you receive from the Los Angeles County Employees Retirement Association (LACERA) is eligible to be rolled over to an IRA or an employer plan.

A rollover is a transfer or deposit of your Benefit Payment to another plan or IRA that allows you to postpone taxation of that benefit until it is paid to you. This notice is intended to help you decide whether to execute such a rollover.

You may roll over eligible amounts to either an IRA (including a Roth IRA) or an "eligible employer plan" that will accept the rollover. An "eligible employer plan" includes a:

- Plan qualified under section 401(a) of the Internal Revenue Code, including:
    - 401(k) plan (including L.A. County 401(k) savings plans)
    - Profit-sharing plan
    - Defined benefit plan
    - Stock bonus plan
    - Money purchase plan
- Section 403(a) annuity plan
- Section 403(b) tax-sheltered annuity
- Eligible section 457(b) plan maintained by a governmental employer (including L.A. County Horizons 457 plan)

If you are a non-spouse beneficiary, you may roll over eligible amounts to an inherited IRA only.

The rules of the IRA or eligible employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or plan (for example, no spousal consent rules apply to IRAs). Further, the amount rolled over will become subject to the tax rules applicable to the IRA or employer plan.

NOTE: An IRA or eligible employer plan is not legally required to accept a rollover. Before initiating a rollover to an IRA or another employer plan, find out whether the desired financial vehicle accepts rollovers and, if so, the types of distributions it accepts. Learn which documents are required to be completed before the rollover can be completed.

Your payment cannot be rolled over to: a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA).

If you have additional questions, call LACERA at 800-786-6464.

GENERAL INFORMATION ABOUT ROLLOVERS

How Can a Rollover Affect My Taxes?

LACERA is required to withhold 20 percent of the payment for federal income taxes if you do not roll it over. If you are under age 59.5 and do not roll over the payment, you will also have to pay a 10 percent additional income tax on early distributions (generally, distributions made before age 59.5), unless an exception applies. However, **if you roll over the payment, you will not have to pay taxes on the rollover until you receive payments later,** and the 10 percent additional income tax will not apply if payments are not made from the vehicle that accepts your rollover until after you are age 59.5 (or if an exception applies).

How Do I Execute a Rollover?

You may do so either through a direct rollover or a 60-day rollover.

If You Execute a Direct Rollover

LACERA will make the payment directly to your IRA or an employer plan. Contact the IRA sponsor or the administrator of the employer plan for information on how to execute a direct rollover.

Executing a 60-Day Rollover

If you do not initiate a direct rollover, you may still execute a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not execute a direct rollover, LACERA is required to withhold 20 percent of the payment for federal income taxes. This means, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20 percent withheld. If you are under age 59.5 and do not roll over the entire amount of the payment, the portion not rolled over will be taxed and subject to the 10 percent additional income tax on early distributions.

If you are thinking about executing a 60-day rollover but are unfamiliar with the details of that process, consider seeking guidance from a tax professional or the administrator of the IRA or eligible employer plan that would receive the deposit of your Benefit Payment.

How Much May I Roll Over?

If you wish to execute a rollover, you may roll over all or part of the amount eligible for rollover. Certain payments are not eligible for rollover, including:

- 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 age 73 (if you were born after December 31, 1950), or after death; and
- Corrective distributions of contributions that exceed tax law limitations.

If I Don’t Roll Over, Will I Have to Pay the 10 Percent Additional Income Tax on Early Distributions?

If you are under age 59.5, you will have to pay the 10 percent additional income tax on early distributions for any payment from an eligible employer plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies:

- 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 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 separation;
- Payments made due to disability;
- Payments made after your death;
- 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 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; and
- Payments for certain distributions relating to certain emergencies, disasters and to those who are terminally ill.

If I Roll Over to an IRA, Will the 10 Percent Additional Income Tax Apply to Early Distributions from the IRA?

If you receive a payment from an IRA when you are under age 59.5, you will have to pay the 10 percent 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 separation (or age 50 for qualified public safety employees) does not apply;
- The exception for qualified domestic relations orders does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free 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?

If you reside in California and do not initiate a direct rollover, LACERA must withhold an additional two percent in state tax from the amount that is eligible for rollover unless you use Form DE 4P to elect not to have any California state tax withheld or elect to have a different percentage withheld. You may not elect to have LACERA withhold California state tax from your Benefit Payment if you do not reside in California. You have the right to change or revoke a California state tax withholding election for the distribution at any time using Form DE 4P before the distribution is made. Check with a professional advisor for rules regarding other state and/or local income tax (including withholding tax).

RULES FOR SURVIVING SPOUSES, NON-SPOUSE BENEFICIARIES, AND ALTERNATE PAYEES

SURVIVING SPOUSES

If you receive a distribution from LACERA as a surviving spouse of a member, you have the rollover options described below in this notice.

If you choose a DIRECT ROLLOVER by LACERA:

- Your Benefit Payment will not be taxed in the year you roll it over and no income tax will be withheld.
- You choose whether your Benefit Payment will be made directly to an IRA or to an eligible employer plan that accepts your rollover.
- Your Benefit Payment will be taxed when you withdraw it from the IRA or the eligible employer plan.

The same consequences will also apply if you receive a direct payment from LACERA and roll over your payment within 60 days; however, LACERA will be required to deduct 20 percent federal tax withholding from the amount of your payment that is eligible to be rolled over.

If you choose to execute 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; payments made to you before you reach age 59.5 will be subject to the 10 percent additional income tax on early distributions (unless an exception applies). Required minimum distributions from your IRA do not have to start until you are age 70½ (if you were born before July 1, 1949), or age 72 (if you were born after June 30, 1949), or age 73 (if you were born after December 31, 1950).

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10 percent additional income tax on early distributions. However, if the member had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the member had not started taking required minimum distributions from LACERA, you will not have to start receiving required minimum distributions from the inherited IRA until the year the member would have reached age 70½ (if the member was born before July 1, 1949) or, age 72 (if the member was born after June 30, 1949), or age 73 (if the member was born after December 31, 1950).

NON-SPOUSE BENEFICIARIES

If you receive a distribution from LACERA due to the death of a LACERA member, and you are a designated beneficiary other than a surviving spouse, (i.e., you are **not the surviving husband or wife** of the deceased LACERA member), the only rollover option available to you is a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10 percent additional income tax on early distributions. You will have to receive required minimum distributions from the IRA.

Domestic Partners are considered by the Federal Government to be non-spouse beneficiaries.

If you choose a DIRECT ROLLOVER to an Inherited IRA:

- Your Benefit Payment will not be taxed in the year you roll it over and no income tax will be withheld.
- Your Benefit Payment will be taxed when you withdraw it from the IRA.

ALTERNATE PAYEES

If you are the spouse or former spouse of a member who receives a payment from LACERA under a qualified domestic relations order (QDRO), you generally have the same options the member 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 percent additional income tax on early distributions.

Notice Period. This notice is required to be provided no less than 30 days (unless you waive such period) and no more than 180 days before distribution of your Benefit Payment. After receiving this notice, you have the right to consider whether or not to have your Benefit Payment directly rolled over. You may waive the 30-day rollover consideration period by submitting your distribution instructions for your Benefit Payment before 30 days have elapsed after receiving this notice and indicating on your instructions that you do not want to execute a rollover. If LACERA does not receive your payment distribution instructions soon enough to issue your payment by the 180-day deadline, this notice will be provided to you again, and you will be asked to either confirm the distribution instructions you already submitted or submit new distribution instructions within 30 days.

After the notice is provided to you again, your payment will be issued according to your confirmed original distribution instructions, or new instructions, if provided. If you do not respond within 30 days as requested, your payment will be issued according to your original distribution instructions immediately following the expiration of the 30-day deadline.

SPECIAL RULES AND OPTIONS

If Your Payment Includes After-Tax Contributions

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment. 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 a payment.

A payment that includes after-tax contributions may be rolled over to an IRA 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 execute a direct rollover of only a portion of the amount paid from LACERA, and a portion 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 complete distribution of your benefit which totals $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 payment to two or more destinations at the same time, you can choose which destination receives the after-tax contributions.

Similarly, if you execute a 60-day rollover to an IRA of only a portion of the payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit which totals $12,000, of which $2,000 is after-tax contributions. In this case, if you roll over $10,000 to an 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.

To roll over *all* of a payment that includes after-tax contributions to an employer plan (governmental section 457(b) plans are not eligible), you must execute a direct rollover to a receiving plan that separately accounts for after-tax contributions. You can execute a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions; however, the rollover cannot exceed 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, 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, Individual Retirement Arrangements (IRAs)*.

If the Deceased Member Was Born on or Before January 1, 1936

If the deceased member was born on or before January 1, 1936, and you 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 You Roll Over Your Payment to a ROTH IRA

If you roll over your payment 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 percent 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 percent 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 59.5 (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 five years. In applying this five-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 percent 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, Individual Retirement Arrangements (IRAs).*

You cannot roll over a payment from LACERA to a designated Roth account in an employer plan.

If You Are a Nonresident Alien

If you are a nonresident alien, and you do not execute a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20 percent, LACERA is generally required to withhold 30 percent of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you execute 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 on whether to make 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, LACERA is not required to allow you to execute a direct rollover and is not required to withhold for federal income taxes. However, you may execute a 60-day rollover. LACERA is not required to withhold California state taxes if the withholding amount would be less than $10.

If your Benefit Payment includes required minimum distributions, those amounts will be excluded from other amounts that are eligible to be rolled over. LACERA will deduct 10 percent federal withholding from the taxable portion of required minimum distributions unless you use Form W-4R to elect no federal withholding or a different percentage. For California residents, LACERA will deduct one percent California state withholding from the taxable portion of required minimum distributions unless you use Form DE 4P to elect no state withholding or a different percentage.

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 Additional Information

You may wish to consult with a professional tax advisor before taking a payment from LACERA. 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)* and *IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).* These publications are available from your local IRS office, online at irs.gov, or by calling 1-800-TAX-FORMS.

For questions regarding legal or tax matters, consult with a professional advisor; LACERA does not offer legal or tax advice.