

September 2008

Special Tax Notice



 **TRSL** Teachers' Retirement
System of Louisiana

TRSL is here to help

The decisions you make concerning your retirement are important. If you have any questions regarding your member account at TRSL, please let us know.

TRSL staff are available for counseling, and you are encouraged to talk with them about questions you may have about your retirement. Call us at 225-925-6446 (Baton Rouge area) or toll-free (outside the Baton Rouge area) at 1-877-ASK-TRSL (1-877-275-8775), Monday through Friday, 8 AM to 4:30 PM.

You can also e-mail us at web.master@trsl.org.

Directions to TRSL's office

TRSL is located in Baton Rouge in the Louisiana Retirement Systems Building at 8401 United Plaza Boulevard, which is just off Essen Lane between Interstates 10 and 12.

From Lafayette, exit I-10 and turn left on Essen Lane, or exit I-12 and turn right on Essen Lane;

From New Orleans, exit I-10 and turn right on Essen Lane;

From Hammond, exit I-12 at Jefferson Highway/Drusilla Lane, turn left on Drusilla Lane, then right on Jefferson Highway. Proceed to Essen Lane, and turn left.

Turn at the United Plaza Boulevard traffic signal on Essen Lane at the sign that reads: "LA RETIREMENT SYSTEMS BLDG."



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Consider the tax implications before receiving a refund or withdrawal

All distributions (payments), including refunds of member contributions, withdrawals from Deferred Retirement Option Plan (DROP) and Initial Lump-Sum Benefit (ILSB) accounts, and Option 1 death benefits from TRSL are subject to applicable IRS rules and regulations.

Please carefully consider all the tax implications of any refund or withdrawal you may request from TRSL.

This booklet contains important information you will need before you decide how to receive your distribution from TRSL.

What is a rollover-eligible payment?

Payments from TRSL may be “eligible rollover distributions.” This means that they can be rolled over to a traditional IRA, Roth IRA, another employer retirement plan, a 403(b) tax-sheltered annuity, or a governmental 457(b) plan that accepts rollovers.

Payments eligible for rollover:

- all refunds of sheltered member contributions
- most DROP and ILSB account withdrawals scheduled over a period of less than 10 years
- most Option 1 death benefits paid to spouses of members

What can you do with a rollover-eligible payment?

You can choose a direct rollover of all or any part of your payment that is an “eligible rollover distribution.” In a direct rollover, the eligible rollover distribution is paid directly by TRSL to a traditional IRA, Roth IRA, an eligible employer retirement plan, a 403(b) tax-sheltered annuity, or a governmental 457(b) plan that accepts rollovers.

If you choose a direct rollover, you are not taxed on a payment until you later take it out of the traditional IRA or other eligible retirement plan. Special tax rules apply to rollovers to a Roth IRA. The plan administrator is not responsible for assuring your eligibility to make a rollover to a Roth IRA. (IRS Notice 2008-30) You should consult a qualified tax advisor if you are interested in rolling over your distribution to a Roth IRA. You may choose only one traditional IRA, Roth IRA, or one eligible retirement plan to receive the direct rollover of the distribution.

◆ **Direct rollover**

A direct rollover is a direct payment of the amount of your plan benefits to a traditional IRA, Roth IRA, or an eligible employer plan that will accept it. You can choose a direct rollover of all or any portion of your payment that is an eligible rollover distribution. You are not taxed on any taxable portion of your payment for which you choose a direct rollover until you later take it out of the traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your plan benefits for which you choose a direct rollover.

◆ **Direct rollover to a traditional IRA**

You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional IRA (not a SIMPLE IRA or Coverdell Education Savings Account), contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a traditional IRA at that institution.

If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the payment. However, in choosing a traditional IRA, you may wish to make sure that the traditional IRA you choose will allow you to move all or a part of your payment to another traditional IRA at a later date, without penalties or other limitations. See IRS Publication 590, *Individual Retirement Arrangements*, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

◆ **Direct rollover to a plan**

If you are employed by a new employer that has an eligible employer plan, a 403(b) tax-sheltered annuity, or a governmental 457(b) plan, and you want a direct rollover to that plan, ask the plan's administrator whether your rollover will be accepted. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a direct rollover to a traditional IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the plan's administrator before making your decision.

◆ **Direct rollover of a series of payments**

If you receive a payment that can be rolled over to a traditional IRA or an eligible employer plan that will accept it, and it is paid in a series for less than 10 years, your choice to make or not make a direct rollover for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

Distributions of less than \$200 will not be rolled over directly by TRSL. If only a portion of the distribution is rolled over, the portion rolled over must be equal to at least \$500.

Distributions of \$200 or more may be rolled over by TRSL, but to only one IRA or eligible retirement plan.

◆ **60-day rollover option**

If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to a traditional IRA or an eligible retirement plan that accepts rollovers. If you decide to roll over, you must make the rollover within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the employer plan. Rollovers may not be made to a SIMPLE IRA or a Coverdell Education Savings Account because these are not traditional IRAs.

If a rollover-eligible payment is made to you

If you have a rollover-eligible payment made to you, it is subject to a mandatory 20-percent income tax withholding. However, distributions of less than \$200 will not be subject to the mandatory 20-percent withholding.

The payment is taxed in the year you receive it unless, within 60 days (60-day rollover option, explained above), you roll it over to a traditional IRA or eligible retirement plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

If you want to roll over 100 percent of the payment made to you to a traditional IRA or an eligible retirement plan, you must find other money to replace the 20 percent that was withheld. If you roll over only the 80 percent that you received, you will be taxed on the 20 percent that was withheld and that is not rolled over.

◆ **Example**

Your eligible rollover distribution is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding.

Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to a traditional IRA or eligible retirement plan. To do this, you roll over the \$8,000 you received from TRSL, and you will have to find \$2,000 from other sources (your savings, a loan, etc.).

In this case, the entire \$10,000 is not taxed until you take it out of the traditional IRA or eligible retirement plan. If you roll over the entire \$10,000, when you file your income tax return you may get a refund of the \$2,000 withheld.

If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000.)

Types of payments that can and cannot be rolled over

Payments from the plan may be “eligible rollover distributions.” This means that they can be rolled over to a traditional IRA or to an eligible employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account. Your plan administrator should be able to tell you what portion of your payment is an eligible rollover distribution.

◆ **After-tax contributions**

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

- a) You can roll over your after-tax contributions to a traditional IRA either directly or indirectly. Your plan administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax portion.

If you roll over after-tax contributions to a traditional IRA, it is your responsibility to keep track of, and report to the IRS on the applicable forms, the amount of these after-tax contributions. This will enable the nontaxable amount of any future distributions from the traditional IRA to be determined.

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

- b) You can roll over after-tax contributions from an employer plan that is qualified under Internal Revenue Code section 401(a) to another such plan using a direct rollover if the other plan provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You cannot roll over after-tax contributions to a governmental 457(b) plan. If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the plan administrator of this plan to make a direct rollover on your behalf. Also, you cannot first roll over after-tax contributions to a traditional IRA and then roll over that amount into an employer plan.

◆ **Payments spread over long periods**

You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for your lifetime (or your life expectancy), or your lifetime and your beneficiary's lifetime (or life expectancies), or a period of 10 years or more.

◆ **Required minimum payments**

For payments beginning in the year you reach age 70½, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you.

Federal income tax withholding

◆ **Mandatory withholding**

If any portion of the payment to you is an eligible rollover distribution, TRSL is required by law to withhold 20 percent of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable payment of \$10,000, only \$8,000 will be paid to you because TRSL must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see "60-day rollover option" on page 6), you must report the full \$10,000 as a taxable payment. You must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your payments for the year are less than \$200.

◆ **Voluntary withholding**

If any portion of your payment is taxable but cannot be rolled over, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. To elect out of withholding, ask TRSL for the election form and related information.

Additional 10-percent early withdrawal penalty

If you receive a rollover-eligible payment before you reach age 59½ and you do not roll it over, then, in addition to the regular income tax, you may have to pay an early withdrawal penalty equal to 10 percent of the taxable portion of the payment.

The additional 10-percent tax does not apply to the following:

1. payments that are paid after you separate from service with your employer during or after the year you reach age 55,
2. payments that are paid because you retire due to disability,
3. payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies),
4. payments that are paid directly to the government to satisfy a federal tax levy,
5. payments that are paid to an alternate payee under a qualified domestic relations order, or
6. payments that do not exceed the amount of your deductible medical expenses.

See IRS Form 5329 for more information on the additional 10-percent tax.

◆ Special tax treatment if you were born before January 1, 1936

If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it.

However, if it qualifies as a “lump-sum distribution,” it may be eligible for special tax treatment. DROP/ILSB account withdrawals do not qualify as lump-sum distributions. A lump-sum distribution is a payment, within one year, of your entire balance in TRSL that is payable to you because you have reached age 59½ or have separated from service with your employer. For a payment to be treated as a lump-sum distribution, you must have been a participant in TRSL for at least five years before the year in which you received the distribution. The special tax treatment for lump-sum distributions that may be available to you is described below.

◆ **10-year averaging**

If you receive a lump-sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates). This often reduces the tax you owe. DROP/ILSB withdrawals are not eligible for 10-year averaging.

◆ **Capital gain treatment**

In addition, if you receive a lump-sum distribution and you were born before January 1, 1936, and you were a TRSL participant before 1974, you may elect to have the part of your payment that is attributable to your pre-1974 participation in TRSL (if any) taxed as long-term capital gain at a rate of 20 percent. DROP/ILSB withdrawals are not eligible for capital gain treatment.

There are other limits on the special tax treatment for lump-sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump-sum distributions that you receive in that same year. If you have previously rolled over a payment from TRSL, you cannot use this special tax treatment for later payments from TRSL. If you roll over your payment to a traditional IRA, you will not be able to use this special tax treatment for later payments from that IRA. Also, if you roll over only a portion of your payment to a traditional IRA, this special tax treatment is not available for the rest of the payment.

Additional restrictions are described in IRS Form 4972, which has more information on lump-sum distributions and how you elect the special tax treatment.

Surviving spouses, alternate payees, and other beneficiaries

In general, the rules summarized on the preceding pages that apply to payments to members also apply to payments to surviving spouses of members and to spouses or former spouses who are “alternate payees.” You are an alternate payee if your interest in TRSL results from a “qualified domestic relations order,” which is an order issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized also apply to a deceased member’s beneficiary who is not a spouse. However, there are some exceptions for payments to surviving spouses, alternate payees, and other beneficiaries that should be mentioned.

If you are a surviving spouse or an alternate payee, you have the same choices as the member. Thus, you can have the payment made as a direct rollover or paid to you. If you have it paid to you, you can keep it or roll it over yourself to a traditional IRA, Roth IRA, or to another eligible retirement plan that accepts rollovers. If you are a beneficiary other than the surviving spouse, or alternate payee, you can choose a direct rollover to an IRA that is established to receive the distribution as an inherited IRA.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10-percent tax described on page 10, even if you are younger than age 59½.

If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump-sum distributions described on page 10. If you receive a payment because of the member’s death, you may be able to treat the payment as a lump-sum distribution if the member met the appropriate age requirements, whether or not the member had five years of participation in TRSL. (Refer to “Special tax treatment” on page 10.)

For additional information

The rules described in this booklet are complex and contain many conditions and exceptions that are not included here. Therefore, you may want to consult a professional tax advisor before you take a payment of your benefits from TRSL.

This brochure summarizes only the federal tax rules that might apply to your payment. It does not address any applicable state tax rules.

You can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, *Pension and Annuity Income*, and IRS Publication 590, *Individual Retirement Arrangements*.

These publications are available from your local IRS office or by calling 1-800-TAX-FORMS.

For information on Louisiana personal income tax, call the Department of Revenue at 225-219-0102.

The Teachers' Retirement System of Louisiana is an equal opportunity employer and complies with the Americans with Disabilities Act.

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