MONTANA PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

100 North Park Avenue, Suite 200 ~ PO BOX 200131
HELENA MT 59620-0131
(406) 444-3154 or (877) 275-7372

TERMINATED EMPLOYEE REFUND APPLICATION

Member Information (please print):

Last Name ____ First Name ____ MI ____ Other Last Names ____ Social Security Number ____

Mailing Address ______________________ Home Phone Number (_______)__________________

City ______________ State ____ ZIP ____ Work Number (_______)__________________

Incomplete applications will be returned, causing processing delays.

To Be Completed by Employing Agency:

Termination Date ______ Retirement System ______ Agency ______ Agency # ______

This employee will receive their final paycheck, including all accumulated sick and annual leave and any severance pay, on _______________________.

Payment will be reported on the ___1st ___2nd ___3rd report for _________________.
(check one) **(month)**

The above employee terminated employment and will not be reemployed by this agency for 30 days and, to the best of my knowledge, is not employed by any other agency covered by this retirement system. **The final payment includes all accumulated sick and annual leave and any severance pay.**

Signature of Authorized Officer ______ Phone Number ______ Printed Name ______ Date ______

Incomplete applications will be returned, causing processing delays.

To Be Completed by Employee: Your employer must send your final payroll information to MPERA before MPERA can process this application. This may take up to four weeks after you receive your final paycheck.

Withdrawal Options

The rules governing withdrawals from a 401(a) plan are complex. Please read the attached tax notice and consult a tax professional before choosing a withdrawal option.

Check **one** of the following options:

_____ **Direct Rollover**. I am rolling my accumulated contributions directly into another eligible retirement plan that will accept it. I am not required to pay federal and state taxes or a penalty on my accumulated contributions at this time. (**Complete Sections A and B on back of application.)**

_____ **Lump-Sum Payment.** My accumulated contributions will be paid directly to me in a lump sum. However, MPERA is required to withhold 20% of any taxable amount for federal taxes. I may also be required to pay a 10% penalty for early withdrawal when I pay my income taxes. **(Complete Section B on back of application.)**

____ **Lump-sum Payment of Taxed Contributions/Direct Rollover of Pre-Tax Contributions and Tax-Deferred Interest.** My taxed contributions will be paid directly to me in a lump sum. I am rolling my pre-tax contributions and tax deferred interest directly into another eligible retirement plan that will accept it. I am not required to pay federal and state taxes or a penalty on the pre-tax contributions and interest at this time. **(Complete Sections A and B on back of application.)**

The MPERA will mail you an IRS (1099R) tax form separately. **Please keep that form for your State and Federal tax records.** You will not receive another 1099R form at year-end.

Section A

To Be Completed by Eligible Retirement Plan Contact:

I certify that this rollover request complies with applicable plan provisions and federal law.

Plan Type: ___ 401(a) ___ 401(k) ___ 403 (a) ___ 403(b) ___457(b) ___IRA 408(a) or (b)

☐ This plan will accept taxed money.

Make Check Payable to: ____

Account Number: ____________________

Mail Check to: ____

______________________________ ______ ____________
City State ZIP

______________________________ (______)____________
Financial Institution or Plan Administrator Contact (please print) Phone Number

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Financial Institution or Plan Administrator Contact Signature

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Section B

To Be Completed by Member:

- I am terminating my employment with this agency. I will **not** be employed by this or any agency covered by this retirement system for at least 30 days. I understand that my membership ceases upon withdrawal of my accumulated contributions, and I will not be entitled to any benefits provided by the system.

- I understand the withdrawal process and have read the IRS special tax notice regarding this withdrawal.

______________________________ ____________
Member's Signature Date

SPECIAL TAX NOTICE REGARDING PAYMENTS

This notice contains important information you will need before you decide how to receive your lump sum withdrawal (refund) of contributions and interest from your retirement system. The Montana Public Retirement Administration (MPERA) provides you this notice because all or part of the refund payment may be eligible for rollover. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) has significantly changed the rules which apply to your ability to rollover all or part of your refund, increasing the type of retirement plans to which you may rollover your refund. Before you decide to roll over your payment you should find out whether the other plan accepts rollovers and, if so, the types of distributions it accepts. This notice will explain how these new rules work.

SUMMARY

There are two ways you may receive a lump-sum payment that is eligible for rollover:

(1) certain payments can be made directly to an ELIGIBLE RETIREMENT PLAN that will accept it ("DIRECT ROLLOVER"), or

(2) the payment can be PAID TO YOU.

An ELIGIBLE RETIREMENT PLAN is

(1) A traditional IRA. A traditional IRA does not include a Roth IRA, SIMPLE IRA or education IRA.

(2) Another qualified employer plan under Code section 401(a), including a 401(k) plan or an annuity plan under Code section 403(a) that accepts your rollover.

(3) A tax-sheltered annuity contract described in Code section 403(b) that accepts your rollover.

(4) An eligible deferred compensation plan under Code section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or local governmental entity and which agrees to accept your rollover and separately account for amounts transferred into such plan.

If you choose a *DIRECT ROLLOVER*

(1) Your payment will not be taxed in the current year and no income tax will be withheld.

(2) Your payment will be made directly to an ELIGIBLE RETIREMENT PLAN.

(3) The taxable portion of your payment will be taxed later when you take it out of the ELIGIBLE RETIREMENT PLAN.

If you choose to have a refund payment that is eligible for rollover *PAID TO YOU*

(1) You will receive only 80% of the taxable portion of the payment, because MPERA is required to withhold 20% of the payment and send it to the IRS as income tax withholding to be credited against your taxes.

(2) The taxable portion of your payment will be taxed in the current year unless you roll it over. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59½, you also may have to pay an additional 10% tax.

(3) You can roll over the payment by paying it to an ELIGIBLE RETIREMENT PLAN within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the ELIGIBLE RETIREMENT PLAN. If you want to roll over 100% of the payment to an ELIGIBLE RETIREMENT PLAN, you must find other money to replace the 20% that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld but not rolled over.

MORE INFORMATION

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER

Payments from your retirement plan may be "eligible rollover distributions." This means that they can be rolled over to an ELIGIBLE RETIREMENT PLAN. MPERA will be able to tell you what portion of your payment is an eligible rollover distribution. The definition of an eligible rollover distribution has been changed by the new federal tax law, EGTRRA. The following types of payments cannot be rolled over:

Non-taxable Payments. Generally only the "taxable portion" of your payment can be rolled over. If you have made "after-tax" employee contributions to your retirement plan, these contributions will be non-taxable when they are paid to you, and they generally cannot be rolled over, except if you elect to rollover to certain types of accounts. The non-taxable portion of your refund may be rolled over to (1) a traditional IRA, or (2) a qualified defined contribution plan, if it is made by a <u>direct rollover</u> and if the defined contribution plan agrees to separately account for amounts so transferred, including separately accounting for the non-taxable portion of the payment and the taxable portion of the payment. If you have the after-tax contributions paid to you first, you cannot then roll them over to a qualified defined contribution plan, but they could be indirectly rolled over to a traditional IRA (see Section III, "Payment to You").

Required Minimum Payments. Beginning when you reach age 70½ or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you.

II. DIRECT ROLLOVER

A DIRECT ROLLOVER is a direct payment of your refund to an ELIGIBLE RETIREMENT PLAN. You can choose a DIRECT ROLLOVER of all or any portion of your payment that is an eligible rollover distribution, as described in Part I above. You are not taxed on any portion of your payment for which you choose a DIRECT ROLLOVER until you later take it out of the ELIGIBLE RETIREMENT PLAN. In addition, no income tax withholding is required for any portion of your payment 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, 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 consider whether 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 RETIREMENT PLAN, and you want a direct rollover to that plan, ask the plan administrator of that plan whether it will accept your rollover. An ELIGIBLE RETIREMENT PLAN that is not a traditional IRA is not legally required to accept a rollover and may choose to accept only certain types of funds as rollovers. 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 restrict subsequent distributions of the rollover amount, or may require spousal consent to any subsequent distribution. You should check with the plan administrator before making your decision.

III. PAYMENT PAID TO YOU

If your payment can be rolled over under Part I above and the payment is made to you in cash, it is subject to 20% federal income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an ELIGIBLE RETIREMENT PLAN. If you do not roll it over, special tax rules may apply. The IRS may waive the 60-day requirement in certain circumstances, as explained below.

Mandatory Withholding. If any portion of your payment can be rolled over under Part I above and you do not elect to make a DIRECT ROLLOVER, MPERA is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if you can roll over a payment of $10,000, only $8,000 will be paid to you because MPERA must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, you must report the full $10,000 as a payment from MPERA. You must report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

Sixty-Day Rollover Option. If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to an ELIGIBLE RETIREMENT PLAN. If you decide to rollover, *you must contribute the amount of the payment you received to an ELIGIBLE RETIREMENT PLAN 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 ELIGIBLE RETIREMENT PLAN.

You can rollover up to 100% of your payment that can be rolled over under Part I above, including an amount equal to the 20% that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the ELIGIBLE RETIREMENT PLAN, to replace the 20% that was withheld. On the other hand, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

> Example: The portion of your payment that can be rolled over under Part I above 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 an ELIGIBLE RETIREMENT PLAN. To do this, you roll over the $8,000 you received from MPERA, 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 ELIGIBLE RETIREMENT PLAN. If you roll over the entire $10,000, when you file your income tax return you may get a refund of part or all of the $2,000 withheld.
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> 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.)

The IRS is permitted to waive the 60-day requirement if the failure to do so would be against equity or good conscience. Examples of such waivers may include cases of casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement (examples include, but may not be limited to, death, disability, hospitalization, incarceration, restrictions imposed by a foreign country, or postal error).

Additional 10% Tax If You Are under Age 59½. If you receive a 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 extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax generally does not apply to:

(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% tax.

Special Tax Treatment If You Were Born Before January 1, 1936. If you receive a payment that can be rolled over under Part I and you do not roll it over to an ELIGIBLE RETIREMENT PLAN, the payment will be taxed in the year you receive it. However, if the payment qualifies as a "lump sum distribution," it may be eligible for special tax treatment. A lump sum distribution is a payment, within one year, of your entire balance under your retirement plan that is payable to you after you have reached age 59½ or because you have separated from service with your employer (or, in the case of a self-employed individual, after you have reached age 59½ or have become disabled). For a payment to be treated as a lump sum distribution, you must have been a participant in your retirement plan 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.

Ten-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). Ten-year averaging often reduces the tax you owe.

Capital Gain Treatment. If you receive a lump sum distribution and you were born before January 1, 1936 and if you were a participant in your retirement plan before 1974, you may elect to have the part of your payment that is attributable to your pre-1974 participation taxed as long-term capital gain at a rate of 20%.

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 distribution from your retirement plan (or certain other similar plans of the employer), you cannot use this special averaging treatment for later payments from your retirement plan. If you roll over your payment to a traditional IRA, you will not be able to use special tax treatment for later payments from the traditional 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. See IRS Form 4972 for additional information on lump sum distributions and how you elect the special tax treatment.

As explained in this notice, the new federal tax law, EGTRRA, creates new rollover options. However, a distribution from a qualified plan, is not eligible for capital gains or averaging treatment if there was a rollover to the plan that would not have been permitted under the law in effect before January 1, 2002. Thus, in order to preserve capital gains and averaging treatment (if available) for a withdrawal payment that is rolled over, the rollover would have to be made to a "conduit IRA" (<u>i.e.</u>, a traditional IRA which <u>only</u> includes the lump-sum payment), and then rolled back into a qualified plan.

IV. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in your refund results from a "family law order," which is an order issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized above also apply to a deceased employee'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, you have the same choices as the employee described above. Thus, you may choose to have an eligible rollover distribution, as described in Part I above, paid in a DIRECT ROLLOVER to an ELIGIBLE RETIREMENT PLAN or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to an ELIGIBLE RETIREMENT PLAN in the same manner as the employee. If you are an alternate payee, you continue to have the same choices as the employee.

If you are a beneficiary other than the surviving spouse, you *cannot* choose a direct rollover, and you *cannot* roll over the payment yourself.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is generally not subject to the additional 10% tax described in section III above, 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, as described in section III above. If you receive a payment because of the employee's death, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had 5 years of participation in the retirement plan.

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from the retirement system. Also, 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, on the IRS's Internet Web Site at www.irs.gov, or by calling 1-800-TAX-FORMS.