

Under § 402(f) of the Internal Revenue Code (“Code”), PERA is required to provide certain information to any recipient requesting an eligible rollover distribution. In addition, the Code requires that a member receive the notice no less than 30 days and not more than 180 days prior to requesting a distribution.

You are receiving this notice because all or a portion of the payment from PERA is eligible to be rolled over to an IRA (an individual retirement account or individual retirement annuity) or employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan). This notice is intended to help you decide whether to do a rollover.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?

- If you do not do a rollover, you will pay taxes on the payment. If you are under age 59 ½, you will also pay a 10% federal early withdrawal additional income tax (10% tax), unless an exception applies.
- If you do a rollover, you will not pay taxes until you withdraw the payment later from the company receiving the rollover. If you are under age 59 ½ when you withdraw the payment, you will pay a 10% tax (unless an exception applies).

Where may I roll over the payment? You may roll over the payment to either an IRA or employer plan that will accept the rollover. The IRA or employer plan rules will determine your investment options, fees, withdrawal rights, and applicable taxes when you receive the payment.

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:

- If you do a direct rollover, PERA will make the check payable to your rollover company, for the benefit of you. We mail the check directly to you. You should contact the company receiving the rollover about how to do a direct rollover.
- If you do not do a direct rollover, you may still do a rollover by depositing into an IRA or employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, PERA is required to withhold 20% of the payment for federal income taxes. To roll over the entire payment, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount, the portion not rolled over will be taxed.

How much may I roll over? If you wish to do a rollover, you may roll over all or part of the eligible amount. PERA will tell you what portion of the payment is eligible for a rollover. Any payment from PERA is eligible for rollover, except:

- Required minimum distributions (RMD) after age 73*, or after death
- Corrective distributions of contributions that exceed tax law limitations
- Certain payments spread over a period of at least ten years, your life, or life expectancy (or the lives or joint life expectancy of you and your beneficiary)

If I don’t do a rollover, will I pay the 10% additional income tax on early distributions? If you are under age 59 ½, you will pay the 10% tax on any payment from PERA (including amounts withheld for income tax) that you do not roll over. This tax is in addition to the federal income tax on the payment.

The 10% tax does not apply to the following payments:

- Payments made after separation from service if you will be at least age 55 in the year you separate from public service
- If you are a public safety employee in a defined benefit plan and at least age 50 in the year you separate from public service
- Payments made due to disability
- Payments after your death
- Corrective distributions of contributions that exceed tax law limitations
- Payments made to the government for a federal tax levy
- Payments made under a qualified domestic relations order (QDRO)
- Payments made at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary) that start after you separate from service
- Certain payments made while on active duty if you were a reserve component member called to duty after September 11, 2001, for more than 179 days

If I do a rollover to an IRA, will the 10% tax apply to early distributions from the IRA? If you receive a payment from an IRA when you are under age 59 ½, you will pay the 10% tax on early distributions from the IRA, unless an exception applies. Generally, the same exceptions listed above apply with an IRA.

However, there are a few differences with payments from an IRA:

- There is no exception if you will be at least age 55 in the year you separate from public service (50 for public safety)
- The exception for QDROs 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)
- There are additional exceptions for:
 - Payments for qualified higher education expenses
 - Payments up to \$10,000 for qualified first-time home purchase
 - 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)

State income taxes. This notice does not describe any state or local income tax rules (including withholding rules).

FOR MORE INFORMATION

You may wish to consult with a professional tax advisor before taking a payment from PERA. 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, *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 [irs.gov](https://www.irs.gov), or by calling 1-800-TAX-FORM.

*RMD Age: In 2023, the required age increased to 73. Please check RMD rules if you reached 72 prior to 2023. In 2033, the RMD age will increase to 75.

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.

You may roll over a payment to an IRA 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 a portion is paid to you, each of the payments will include an allocable portion of the after-tax contributions. If you do 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. 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.

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 after-tax 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 roll over your payment to a Roth IRA. A special tax rule applies to the payment rolled over to a Roth IRA (reduced by any after-tax amounts). The 10% additional tax will not apply (unless you take the amount rolled over out of the Roth IRA within five years, counting from January 1 of the year of the rollover).

If you roll over the payment to a Roth IRA, later withdrawals 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 withdrawal made after age 59½ (or after your death or disability, or as a qualified first-time home buyer distribution of up to \$10,000) and after you have had a Roth IRA for at least five 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. Withdrawals that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% tax (unless an exception applies). You do not have to take RMDs from a Roth IRA during your lifetime. For more information, see IRS Publication 590, *Individual Retirement Arrangements*.

If you were born on or before January 1, 1936. If you do not roll over the payment, 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 miss the 60-day rollover deadline. Generally, the deadline cannot be extended. However, the IRS has limited authority to waive the deadline under certain extraordinary circumstances. 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 you are not a PERA member.

- **Payments after the death of the member.** If you do not roll over a payment received after a member's death, it will generally be taxed in the same manner described in this notice. The 10% tax on early distributions does not apply. The special rule described under the section "If you were born on or before January 1, 1936" applies only if the member was born on or before January 1, 1936.
- **If you are a spouse.** If you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA. If you treat the IRA as your own, withdrawals from the IRA made to you before age 59½ will be subject to the 10% tax (unless an exception applies) and RMDs from the IRA do not start until age 73*. If you treat the IRA as an inherited IRA, withdrawals from the IRA will not be subject to the 10% tax. However, if the member started taking RMDs, you will have to receive RMDs from the inherited IRA. If the member had not started taking RMDs, you will not start receiving RMDs from the inherited IRA until the year the member would have been age 73*.
- **If you are a named beneficiary other than a spouse.** The only rollover option you have is a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% tax. You will receive applicable RMDs from the inherited IRA.
- **Payments under a qualified domestic relations order (QDRO).** If you are the spouse or former spouse of the member, you generally have the same options and tax treatments as the member. Payments under the QDRO will not be subject to the 10% tax.

If you are a nonresident alien. If you do not do a direct rollover to a U.S. IRA or U.S. employer plan, PERA is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the tax owed, 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 your payments for the year are less than \$200 (not including payments from a designated Roth account in PERA), PERA 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.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, *Armed Forces' Tax Guide*.

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