

SPECIAL FEDERAL TAX NOTICE
(for eligible rollover distributions from MOSERS)

You are receiving this notice because all or a portion of a payment you are receiving from the Missouri State Employees' Retirement System (MOSERS) is eligible to be rolled over to an IRA or a qualified employer plan. This notice is intended to help you decide whether to do such a rollover.

Rules that apply to most payments from a plan are described in the "Taxes and Your Rollover Distribution" section. Rules that only apply in certain circumstances are described in the "Special Tax Rules and Options" section. Seek qualified tax advice before applying this information to payments from any other source.

TABLE OF CONTENTS

Taxes and Your Rollover Distribution	2
General Information	2
Rolling Over a Distribution	3
<i>Rollover Amounts for Individuals Over 70½</i>	3
Early Distribution Payments from MOSERS	4
Early Distribution Payments from and IRA.....	5
Special Tax Rules and Options	6
After-tax Contributions.....	6
Rollover to a Roth IRA.....	6
The 60-Day Rollover Deadline Has Passed	7
Payments After Death of Member	7
Survivor of Deceased Member.....	8
<i>Surviving Spouse</i>	8
<i>NonSpouse Survivor</i>	8
Born On or Before January 1, 1936	9
Eligible Retired Public Safety Officer Paying for Health Coverage or Qualified Long-Term Care Insurance with Pension Payment	9
Nonresident Alien	9
Other Special Rules	10
For More Information	11

TAXES AND YOUR ROLLOVER DISTRIBUTION

General Information

You will be taxed on a lump-sum payment from MOSERS if you do not roll it over. You may roll over your payment to either a traditional IRA (an individual retirement plan 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.

- *MO Deferred Comp* - You have the option to roll over the lump-sum distribution into MO Deferred Comp. You can defer taxation on the balance until you start withdrawing money from MO Deferred Comp (must begin at age 70½), at which time you will be taxed only on the amount withdrawn. See the *Special Tax Notice Regarding Plan Payments* on the MO Deferred Comp website (www.moderferredcomp.org) for details.

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, no spousal consent rules apply to IRAs and IRAs may not provide loans). The amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

MOSERS operates as a tax qualified plan under section 401(a) of the Internal Revenue Code (IRC). Please refer to IRS Publications 575 (*Pension and Annuity Income*) and 590A and 590B (*Individual Retirement Arrangements*) for more information on your tax liability.

This notice does not describe any state or local income tax rules (including withholding rules). You may wish to consult a professional tax advisor, and your state and/or local taxing authority about your state and local tax liability before taking a lump-sum distribution.

Rolling Over a Distribution

There are two ways to roll over your lump-sum payment from MOSERS. You can initiate either a direct rollover or a 60-day rollover.

- **A Direct Rollover** - MOSERS will make the lump-sum payment directly to your MO Deferred Comp account, IRA, or other employer plan. If you elect to rollover your distribution to any qualified retirement account, you must have an official from your financial institution or employer plan complete and sign the Rollover Agreement on the form supplied by MOSERS. Check with your accepting plan as they may have additional requirements.
- **60-Day Rollover** - You may still roll over your lump-sum payment 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 do a direct rollover, MOSERS is required to withhold 20% of the payment for federal income taxes. 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).

Rollover Amounts for Individuals Over 70½

Beginning on April 1 of the year after the year in which you turn age 70½ or retire (whichever is later), a certain portion of your payment generally cannot be rolled over because it is a “required minimum distribution” that must be paid to you. MOSERS can tell you what portion of a payment is eligible for rollover.

Early Distributions Payments from MOSERS

If you are under age 59½, you will pay an additional 10% income tax for any payment from MOSERS (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over.

- 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 lives or joint life expectancy of you and your beneficiary)
- Payments from a governmental defined benefit pension plan made after you separate from service if you are a public safety employee* and you are at least age 50 in the year of the separation
- Payments made because you retire due to disability
- Payments after your death
- Corrective distributions of contributions that exceed tax law limitations
- Payments made directly to the government to satisfy a federal tax levy
- Payments up to the amount of your deductible medical expenses
- 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 that are paid to an alternate payee under a division of benefits order (DBO)

If your distribution from MOSERS is rolled over to another plan, the distribution from the receiving plan may be subject to different restrictions and tax consequences than those that apply to distributions from MOSERS.

* **Qualified Public Safety Employee** - any uniformed state employee who provides police protection, fire fighting services, or emergency medical services for any area within the jurisdiction of Missouri (effective 8/17/06).

Early Distributions Payments from an IRA

If you receive a payment from an IRA that includes funds rolled over from MOSERS when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, 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:

- There is no exception for payments after separation from service that are made after age 55.
- 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 tax-free transfer may be made directly to an IRA of a spouse or former spouse).
- 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.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to \$10,000 used in a qualified first-time home purchase, and (3) payments after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

SPECIAL TAX RULES AND OPTIONS

After-Tax Contributions

After-tax contributions included in a payment are not taxed.

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 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 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.

Rollover to a Roth IRA

If you roll over the 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. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover).

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, *Individual Retirement Arrangements* (IRAs).

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

The 60-Day Rollover Deadline has Passed

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. 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).

Payments After Death of Member

If you receive a distribution after the member's death that you do not roll over, the distribution will generally 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 *member* was born on or before January 1, 1936.

Survivor of Deceased Member

Surviving Spouse

If you receive a payment from MOSERS as the surviving spouse of a deceased member, you have the same rollover options that the member 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 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 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 MOSERS, you will not have to start receiving required minimum distributions from the inherited IRA until the year the member would have been age 70½.

NonSpouse Survivor

If you receive a refund of member contributions from MOSERS because of the member's death and you are a designated beneficiary other than a surviving 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% additional income tax on early distributions. If the member would have been age 70½ or older, you will have to receive required minimum distributions from the inherited IRA.

Please complete, sign, and notarize a *NonSpouse Request for Refund of Contributions* form and submit it to MOSERS.

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*.

Eligible Retired Public Safety Officer Paying for Health Coverage or Qualified Long-Term Care Insurance with Pension Payment

If 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.

Nonresident Alien

If you are a nonresident alien and you do not choose the direct rollover option to a U.S. IRA or U.S. employer plan, instead of withholding 20%, MOSERS 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 your payments for the year are less than \$200, MOSERS is not required to allow you to do a direct rollover and is not required to withhold for 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*.

FOR MORE INFORMATION

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules are complex and contain many conditions and exceptions that are not included in this notice.

You may wish to consult with a MOSERS benefit counselor, a professional tax advisor, or your state/local taxing authority before taking a distribution payment from MOSERS.

Detailed information on the federal tax treatment of payments to/from employer plans can be found in: IRS Publication 575, *Pension and Annuity Income*; IRS Publication 590A and 590B, *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 (800) TAX-FORM or (800) 829-1040.

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Safe Harbor Explanation-Eligible Rollover Distributions

*Visit MOSERS' website for the most
current version of this publication.*

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