Withdrawing PERSI Funds

PERSI
Public Employee Retirement System of Idaho

WITHDRAWING FUNDS FROM YOUR PERSI ACCOUNTS

Many PERSI members have two retirement accounts: a Base Plan account and a Choice 401(k) Plan account. If you end PERSI-covered employment, you may leave your funds in PERSI or you may withdraw your funds from either or both accounts. The two accounts have different requirements and withdrawal criteria. This brochure will help you understand your options.

Taking a Base Plan Separation Benefit

A *separation benefit* is a pay out (lump sum payment or rollover) of **all** the money you contributed to the PERSI Base Plan, plus the interest earned. In other words, it is a withdrawal of your funds. While your Base Plan contributions are always yours, contributions made by your employer are not eligible for withdrawal because they were pooled in the trust to fund benefits.

Separation Benefit Eligibility

You are eligible for a Base Plan separation benefit if you were an active employee and have terminated PERSI-covered employment. You must be an inactive member before requesting an account withdrawal. You *are not* eligible for a separation benefit if you are working for a PERSI employer (even on a part-time basis), are on a leave of absence, or convert to the status of contractor or leased employee.

If you take a separation benefit and return to work for the same employer within 90 days, you will be required to repay any separation benefit you received, plus any interest. State of Idaho employees who leave one state agency to work for another agency within 90 days must repay any funds that were withdrawn because the state is considered one employer.

Other Conditions for Eligibility

You are not eligible for a separation benefit if you continue to work for the same PERSI employer, even if you are working less than the 20 hours per week required for PERSI membership. You must terminate employment to be eligible.

If your employer withdraws from PERSI, a separation benefit cannot be paid until you stop working for that employer. Internal Revenue Service (IRS) and Idaho statutes require members to be separated from service with the employer before they can receive a separation benefit.

If you leave one PERSI employer and begin working for another PERSI employer, you must take a 90-day break in employment between jobs to qualify for a separation benefit. If you decide to make a withdrawal request, it must be made **AFTER** you stop working for one PERSI employer and **BEFORE** you start working for a new PERSI employer. (Remember, the State of Idaho is considered one employer.)

Applying for a Base Plan Separation Benefit

To apply for a Base Plan separation benefit, you must first be an inactive member and meet the eligibility requirements listed in this brochure. Your employer is required to notify PERSI when you have separated all employment. This notification is typically done via the employer's regular payroll transmittal. When an application is received between transmittal periods, PERSI may request an RS109 *Notice of Change in Employment Status* form from the employer to avoid a processing delay. Before the actual separation benefit can be paid, you must submit an RS108 *Request for Separation Benefit* form to PERSI. Your signature must be notarized. All PERSI offices have notaries available during normal business hours at no cost to members. If you choose to roll over your funds to an Individual Retirement Account (IRA) or other eligible retirement plan, PERSI will need the name, address, and plan account information.

Spousal Consent

Idaho is a community property state. Under current law, your spouse may be entitled to a portion of your Base Plan benefit. The RS108 *Base Plan Account Withdrawal* form has a section for your spouse (if you are married) to complete and sign acknowledging his/her awareness of the withdrawal and giving consent for it. Your spouse's signature on the RS108 form must be notarized by a Notary Public to ensure it is your spouse who is giving consent. All PERSI offices have notaries available during normal business hours at no cost to members. You do not need an appointment to have PERSI documents notarized. (See the *Divorce* brochure on the PERSI website for details about the division of assets.)

Payments

Payment Directly to You: If you request a separation benefit more than two months after leaving PERSI-covered employment, you will generally receive all of your accumulated contributions in a single payment (less a 20% federal tax withholding). If your request is made earlier than two months, your account balance will likely be paid in two payments. The first payment is processed after PERSI receives all the necessary documents, including the RS108 and RS109 forms and a copy of your divorce decree (if applicable). The second payment will include the balance of any contributions made in the interim period between terminating employment and requesting a separation benefit. This payment is usually paid about 90 days after the first payment. Direct deposit is not available for a payment made directly to you.

Payment as a Direct Rollover to an IRA or Other Eligible Plan: Payments going to an IRA or other qualified retirement plan are forwarded directly to the specified plan/IRA. The timing of the transfer is the same as if the funds were paid to you.

Taking a Separation Benefit Cancels Your Base Plan Service Credits

When taking a separation benefit, all service credits toward your PERSI retirement are cancelled. If you have enough credited service to qualify for a Base Plan pension payment, your eligibility for that benefit is also cancelled. Should you ever return to work for a PERSI-covered employer, you would begin accruing service all over again. Many types of employers belong to PERSI, so if you think you might work for a school district, a city or county, a highway district, or a state agency someday, you may want to consider leaving your funds in PERSI.

If you have at least 60 months of credited service, or have a "vested right" to a lifetime retirement benefit, you should check with PERSI about your benefit amount before taking a separation benefit. The value of a PERSI pension is often more than just your account balance.

For example: Within the first 3 to 5 years of retirement most members have already received all the money they contributed while working. If your total contributions to PERSI during your career totaled $60,000 and your monthly retirement benefit is $1500, you would receive your $60,000 in just over three years. Although you would have exhausted everything you contributed, PERSI would continue to pay you $1500 a month for the rest of your life, plus annual cost of living adjustments (COLAs) if approved by the state legislature. So if your retirement were to last another 30 years, you would receive $540,000 in benefits from the PERSI trust. It would be very hard to find another investment with such a secure, long-term return.

Taxes

Before deciding to take a separation benefit, you should consider the tax consequences. Not all tax rules can be presented in this brochure; therefore, PERSI suggests you consult with your tax advisor before requesting a separation benefit. [Specific information can be found in Internal Revenue Service (IRS) *Publication 575*, titled "Pension and Annuity Income" and IRS *Publication 590*, titled "Individual Retirement Arrangements." Both publications are available online at the IRS website at http://www.irs.gov/index.html or by calling 1-800-829-3676.]

• Federal Excise Tax

If you are not at least age 59½ at the time you take a separation benefit, when you file your tax return you may be required to pay a 10% federal excise tax for taking an early withdrawal. You could also be subject to any applicable federal, state, and local taxes on the tax-deferred portion of your benefit. The tax-deferred portion consists of all contributions made after July 1, 1983, plus the interest accrued on all your contributions. Contributions made to PERSI prior to July 1, 1983, were taxed. [IRS *Publication 532*9, titled "Additional Taxes on Qualified Plans (including IRAs) and Other Tax Favored Accounts," explains the federal excise tax in detail.]

• Federal Withholding Tax

Generally PERSI is required to withhold 20% of the tax-deferred portion of your separation benefit for federal income taxes if the payment is made directly to you. You may avoid this withholding by having PERSI roll over the tax-deferred portion of your benefit, including the interest, directly into another tax-qualified plan or IRA.

The only exceptions to the 20% withholding on distributions are for contributions paid with after-tax dollars or for ineligible contributions.

• Special Tax Treatments

Different special tax treatments, such as 5- or 10-year averaging or capital gains may be available if you receive a lump sum payment after you are age 59½ or were born before January 1, 1936. [See IRS Form 4972 or consult a tax advisor for more information.] More details are provided in the *Special Tax Notice* that comes as part of the RS108 *Request for Separation Benefit* form.

Methods of Payment

Three options are available to members making a Base Plan account withdrawal: 1) Lump sum payment directly to you; 2) Rollover directly to another eligible retirement plan or IRA; or 3) Split the funds with a portion paid to you and another portion rolled into an IRA or other eligible retirement account. (On the RS108 form, these are shown as options A, B, and C.) Your choice will affect the taxes you owe. Regardless of which option you choose, you will receive a 1099R for income tax filing. The 1099R will indicate the taxable amount.

1) Lump Sum Payment to You

If you select this option, you will receive 80% of your tax-deferred contributions and interest. The IRS requires PERSI to withhold 20% of the account as taxable income; the funds will be sent to the IRS. In late January you will receive a 1099R for tax purposes; the 20% withholding will show as a tax credit against any federal taxes you may owe. Your separation benefit will be taxed in the current year unless you elect to roll over the funds. If you receive the funds before reaching age 59½, you may be liable for an additional 10% federal excise tax for taking an early withdrawal. Tax withholding does not apply to contributions paid from after-tax dollars.

You may choose to roll over your pre-tax lump sum payment within 60 days of receipt by depositing the money into an IRA or other employer plan that accepts rollovers. The amount rolled over will not be taxed until you withdraw it. If the payment is made to you, and later you decide to do a 100% rollover to an IRA or other eligible retirement plan, you must find other money to replace the 20% PERSI withheld and sent to the IRS. This also must be done within 60 days of receiving the money from PERSI. If you decide to roll over the 80% you received, the 20% that was withheld and not included in the rollover will be taxable income.

2) Direct Rollover

If you select this option, your payment will not be taxed in the current year, and no income tax will be withheld. (You will be taxed at the time you begin withdrawing the money from the rollover account.) The 1099R you receive in late January will indicate the funds were directly rolled over to an IRA or other eligible retirement account.

Your must have a minimum balance of $200 in your PERSI account to choose a direct rollover of all your tax-deferred contributions.

If you have reached age 70½ or you have retired (whichever is later), you cannot rollover any portion of your separation benefit considered to be a “required minimum distribution” (RMD). An RMD must be made directly to you.

3) Split Distribution Option

If you choose to take a partial payment of your account balance and roll over the rest, your rollover must be a minimum of $500. A split distribution may reduce your tax consequences and enhance your retirement benefits. Only the lump sum portion paid directly to you requires a 20% federal tax withholding; and, if you have not reached age 59½, an additional 10% federal excise tax may be required.

Leaving Your Base Plan Account in PERSI

Under certain conditions, if you leave eligible public employment you may choose to leave your contributions and interest in the PERSI Base Plan instead of taking a separation benefit. Your contributions will continue to earn interest and your service retirement credits will be preserved. This is particularly important if you have 60 months or more of service, which would qualify you for a lifetime retirement benefit, or if you plan to return to a PERSI employer at some time in the future and want to keep your service credits intact. If you are eligible for a lifetime retirement benefit, cost-of-living adjustments (if granted) will be added to your accrued benefit from the date of your last contribution until you retire.

Members with Less Than 60 Months of Service

Non-vested members with an account balance of $1000 or more may leave their funds in PERSI indefinitely. However, PERSI is required by Idaho law to refund contributions plus interest to non-vested members with an account balance less than $1000, who are inactive for 3 years, separated from employment, and who are not reemployed by the same employer within 90 days. It is important to keep PERSI informed of your current mailing address so we can contact you regarding the refund of your account balance.

Members with Less Than 5 months of Service

If you have less than 5 months of credited service, you did not meet PERSI eligibility requirements. Because you did not meet the criteria for member eligibility, your contributions will be refunded to you. Contact PERSI for your refund. Elected and appointed officials should check with PERSI about eligibility.

Taking a PERSI Choice 401(k) Plan Withdrawal

Generally, you must be an inactive member to withdraw funds from your Choice 401(k) Plan account. (Reducing your work schedule with your current employer to less than 20 hours per week does not make you eligible for a Choice Plan withdrawal; however, leaving one PERSI employer and going to work less than 20 per week for another PERSI employer would make you eligible because you would be considered an inactive member.) The State of Idaho is considered one employer.

Methods of Payment

If you are eligible for a Choice 401(k) Plan withdrawal, several options are available. Your options depend on your account balance on the date you request a distribution and whether you are retiring.

A. Lump Sum Distribution Paid Directly to You. You may request a lump sum distribution of your Choice 401(k) Plan funds. Any amounts payable that are eligible for rollover distributions will be subject to a mandatory federal income tax withholding of 20% and any mandatory state tax withholding. You may also incur a federal 10% early distribution penalty if you are under age 59½. Distributions not eligible for rollover will generally be subject to a 10% federal withholding, unless you elect a different rate.

B. Purchase Base Plan Service. You may convert all or part of your Choice 401(k) Plan account balance to purchase service credit for your Base Plan retirement. To take advantage of this option you must:

1) Be leaving active employment and going directly to PERSI retirement, and
2) Be eligible to purchase service under the PERSI Base Plan, and
3) Have completed the necessary purchase of service paperwork.

Because the cost to purchase service is based on many factors (salary, age, years of service), an exact cost cannot be calculated until you are ready to retire. This election must be made within 90 days prior to your retirement date. You can estimate the cost of purchasing service by using the Purchase of Service Calculator on the PERSI website at www.persi.idaho.gov or by calling the PERSI Answer Center toll-free at 1-800-451-8228 or 334-3365 from the Boise area.

C. Rollover to an IRA or Eligible Retirement Plan. You may transfer your Choice Plan balance via direct rollover to an eligible retirement plan [401(a), another 401(k), 403(a), 403(b), or 457] or a Roth IRA or pre-tax IRA. By transferring your money via direct rollover, you defer paying taxes (except on a Roth IRA).

D. Leave Your Funds in the Choice Plan. You may leave your funds in the Choice Plan until you retire if your balance is $1,000 or more. Your funds will be paid to you and your account closed if you have less than a $1,000 balance in your account. By leaving your money in the Choice Plan, you defer paying taxes. (When you reach 70½ your account will be subject to minimum distribution requirements.) You will also become responsible for paying the annual record keeping fees to maintain the account. Fees will be assessed against the account starting 90 days after you end your employment with a PERSI-covered employer.

E. Installment Payments. You may receive monthly installment payments from your Choice Plan account, which can be paid to you as follows:

1) A fixed monthly amount, not to exceed 120 months; or
2) In substantially equal monthly payments over a fixed period of time not to exceed the joint life expectancy of you and your designated beneficiary.

Installment payments are available only when you retire, reach age 50, become disabled, or upon your death if your beneficiary is your surviving spouse. The balance in your account must be more than $5,000. You will be responsible for paying the annual record keeping fees to maintain the balance during the time the installment payments are being made. When you reach 70½, your installment payments may need to be adjusted to comply with minimum distribution requirements set by federal law.

Applying for a Choice Plan Withdrawal

To apply for a Choice 401(k) Plan withdrawal you must be an inactive member. If you decide to withdraw your Choice Plan funds, you will need to go to the Empower Retirement web site to complete the process. Empower Retirement, the record keeper for the Choice Plan, processes all distributions and loans. The Empower Retirement website is accessible from the PERSI website.

Before Empower Retirement can pay a Choice Plan withdrawal, termination information must be received from your employer. If you elect to roll over your account balance to an IRA or other eligible retirement plan, Empower Retirement will need the name, address, and plan account information.

The decisions you make about your Choice 401(k) Plan account can have financial and tax ramifications. Before taking a Choice Plan account withdrawal, you may want to consult with your financial or tax advisor.

Active Member Distributions

Under certain circumstances, distributions from your Choice Plan account can be made while you are still an active member; these are called *in-service withdrawals* and are subject to different rules.

Loans

Two types of loans are permitted from your Choice 401(k) Plan account: General Purpose and Primary Residence loans. *Only one loan is permitted at a time*. You may borrow up to 50% of your account balance. The minimum loan amount is $1,000, so you must have at least $2,000 in available funds in your account for a loan. Available funds include your voluntary contributions, rollover amounts from previous eligible plans, earnings, and any employer contributions. Gain Sharing money is not eligible for loans. Loan repayments go into your own account through payroll deductions, which your employer will set up.

Hardship Withdrawal

A hardship withdrawal can be taken from your Choice Plan account to relieve an immediate and heavy financial need for these reasons:

a) Payment of current post-secondary tuition (not tuition loan repayments)
b) Unreimbursed medical expenses
c) Purchase of a primary residence
d) To prevent eviction or foreclosure on your primary residence
e) Funeral expenses for a deceased parent, spouse, child, or other dependent
f) To repair damage to your principal residence (must qualify for an IRS casualty loss deduction)

To qualify for a hardship withdrawal, all other financial resources reasonably available must be exhausted.

Hardship withdrawals are not subject to the mandatory 20% federal tax withholding; however, a small portion may be withheld. The withdrawal is taxed as ordinary income and could be subject to an early withdrawal penalty if you are under age 59½ at the time of the distribution. You may want to consult your tax advisor before taking a hardship withdrawal.

You will not be able to make voluntary contributions to your Choice Plan for 6 months if you take a hardship withdrawal.

Non-Hardship Withdrawal

Active PERSI members, including those who have suspended contributions to the Choice Plan, are allowed to take non-hardship withdrawals.

- If you rolled over money from a previous employer's retirement plan, you may take a rollover withdrawal at any time. The withdrawal will be paid in a lump sum and is subject to a mandatory 20% federal income tax withholding unless it is rolled over to an IRA. The withdrawal may also be subject to a federal 10% early distribution penalty if your are under age 59½.
- If you have funds that were transferred from the Idaho Super Saver 401(k) Plan (Scudder), you may request an in-service withdrawal from those funds if you are at least age 59½. Any other money contributed to the Choice Plan after October 1, 2001, regardless of the source, is not eligible for an in-service distribution. The withdrawal is subject to the same taxes and penalties as described above.

You may initiate a non-hardship withdrawal by calling Empower Retirement (the plan record keeper) toll-free at 1-866-437-3774 or by accessing the Empower Retirement website by logging into your account from the PERSI website at www.persi.idaho.gov.

Other Distributions

- Required Minimum Distribution: The IRS requires inactive participants who reach age 70½ to begin taking distributions from their 401 (k) plan by the first of April following the calendar year when they reach 70½ or retire (whichever is later).
- Divorce: Funds accumulated in the Choice 401(k) Plan by a married member are the assets of the marriage (community property), and may be subject to possible distribution between the member and the spouse in the event of a divorce. (See *Divorce* brochure on the PERSI website for details.)
- Disability: A member who is determined to be disabled under Social Security Administration rules qualifies for a disability distribution from the Choice Plan.

Before taking your money from the Base Plan or your Choice 401(k) Plan account, consider all the advantages and disadvantages. Not only could a withdrawal have tax consequences, but it could also impact your retirement. Visit the PERSI website at www.persi.idaho.gov for additional information about withdrawing your Base Plan or Choice 401(k) Plan funds.

The Public Employee Retirement System of Idaho
has three offices to serve you.

607 North 8th Street
Boise, Idaho 83702

2005 Ironwood Pkwy, Suite 226
Coeur d'Alene, Idaho 83814

1246 Yellowstone Avenue, Suite A-5
Pocatello, Idaho 83201

1-800-451-8228 or 208-334-3365

The information in this booklet is also available on PERSI's website at www.persi.idaho.gov

The information in this booklet is based on 2014 law. It is intended to explain PERSI retirement options as simply and accurately as possible. If there is any discrepancy between this publication and the law, the provisions of the law will prevail.

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