

# DEFERRALS & WITHDRAWALS ?

20% WITHHOLDING TAX

DIRECT ROLLOVERS ?

? IRRS

CONTRIBUTIONS ?

**L.A. CERA**  
Los Angeles County Employees  
Retirement Association  
300 North Lake Avenue  
Pasadena, CA 91101-4199  
(818) 564-6132 • (800) 786-6464

RSD 562 (3/93)

**INFORMATION ON DEFERRALS  
ROLLOVERS  
AND WITHDRAWALS**  
(Including Federal Rules on  
Automatic Withholding)

If you leave County or District service for any reason before retirement, you must make a decision about deferring or withdrawing your LACERA retirement contributions. The *contributions* also include the interest they have earned, which is taxable. You have several choices. You may be able to:

1. *Defer receiving your retirement allowance* (if you have five or more years of County/District retirement credit) by leaving your contributions on deposit with LACERA; or
2. *Directly roll over 100% of the taxable portion of your contributions to an Individual Retirement Account (IRA) or another employer's qualified retirement plan and receive a check made out to the rollover institution you choose; or*
3. *Directly roll over a percentage of the taxable portion of your contributions to an IRA and have the remaining taxable balance (less 20% withholding) paid to you; or*
4. *Withdraw your contributions (less 20% withholding on the taxable contributions) and receive a check made out to you.*

If you qualify for and choose a deferral:

- Your contributions will continue to earn interest; and
- Your contributions will not be taxed until you begin receiving your retirement benefits.
- This option is likely to give you the highest total retirement income.

- **Capital Gain Treatment If You Were Born Before January 1, 1936**

In addition, if you receive a lump sum distribution and you were born before January 1, 1936, you may elect to have the part of your payment that is attributable to your pre-1974 participation in LACERA (if any) taxed as long-term capital gain at a rate of 20%.

If you use this special tax treatment, the 20% withholding may be too high so you should check to see if you are owed a refund from the IRS. The tax rules on "lump sum" treatment are very complex, so you may want to consult a tax advisor if you wish to use these rules.

**Questions?**

If you have any questions about this law and the effect it has on your withdrawal from LACERA, please contact us at 818-564-6132 or 800-786-6464. You may also request LACERA's *IRA Rollover/Tax Laws* brochure for more detailed information. You may want to discuss the various tax implications with a financial or tax advisor before requesting a withdrawal.

More specific information on the tax treatment of payments from qualified retirement plans is available 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-FORM.

withdrawal, you will receive only \$800 because of the 20% withholding rules. If you decide to roll over the \$800, you will still be taxed on the \$200 that has been withheld. To avoid the tax, you will have to add another \$200 to your IRA deposit within 60 days of the date that you received the \$800. That will give you a rollover of the full \$1,000, and no tax will be owed. You will not get back the \$200 that was withheld by LACERA until you claim a refund when you file your tax return with the IRS.

#### Special "Lump Sum" Tax Treatment

Your LACERA withdrawal may qualify as a special "lump sum distribution," and be eligible for special tax treatment if you have 5 years of "participation" in LACERA (determined under special tax rules), and you have reached age 59-1/2 or have become disabled. The special tax treatment for lump sum distributions is described below.

- **Five-Year Averaging**

If you receive a lump sum distribution after you are age 59-1/2, you may be able to make a one-time election to figure the tax on the payment by using "five-year averaging." Five-year averaging often reduces the tax you owe because it treats the payment as if it were paid over five years.

- **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 "ten-year averaging" (using 1986 tax rates) instead of five-year averaging (using current tax rates). Like the five-year averaging rules, ten-year averaging often reduces the tax you owe.

#### If you choose a direct rollover:

- You will lose all rights to future retirement benefits from LACERA, including disability benefits.
- Direct rollovers are not subject to the 20% withholding tax. Your rollover will not be taxed in the current year, and no income tax will be withheld.
- Your rollover will not be taxed until you take your funds out of your IRA or other employer's plan.
- A check for the taxable portion of your withdrawal will be made payable to your IRA or another employer's plan that accepts your rollover. (However, you will receive the check to give to your IRA institution — bank, mutual fund, etc.)
- Nontaxable contributions do not qualify to be rolled over to an IRA, so you will receive a check for your nontaxable contributions, if any.

#### If you choose a withdrawal and have your LACERA contributions paid to you:

- You will lose all rights to future retirement benefits from LACERA, including disability benefits.
- You will receive only 80% of the taxable portion of your withdrawal amount. LACERA is required by federal law to withhold the other 20% and send it to the IRS as income tax withholding to be credited against your taxes the year you receive the withdrawal.
- The nontaxable portion of your contributions will be refunded to you.
- If the automatic 20% withholding is more than you owe, you may claim a refund from the IRS when you file your income tax return.

- You may be able to use *special tax rules* when you file your income tax that could reduce the tax on your withdrawal. But, if you withdraw your contributions from LACERA before age 55, you may owe additional tax penalties for premature distribution — 10% federal tax and 2-1/2% California state tax. You may want to consult your financial or tax advisor.

**If you withdraw your contributions, then change your mind:**

- You can roll over the taxable portion of your withdrawal, within 60 days, by depositing your funds in an IRA, or in another employer's plan that accepts your rollover.
- The amount you roll over is not taxable until you take it out of the IRA or employer's plan.
- If you want to roll over 100% of the taxable portion of your withdrawal to an IRA or another employer's plan, you must find other money to replace the 20% that was withheld by LACERA. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and not rolled over.

**If you terminate and do nothing about your contributions:**

- If you fail to defer your retirement within 180 days, or do not withdraw or roll over your contributions, your funds will remain with LACERA but will draw no interest, and you will lose all rights to claim your funds after 5 years, regardless of your years of service credit.

you will receive only \$800. You must pay tax on the full \$1,000. Depending on your tax status, you may owe more or less in income taxes than the \$200 withheld.

**Extra Penalty Tax**

- If you are *under age 55* when you terminate and receive your withdrawal from LACERA there may be an extra penalty tax (10% federal and 2-1/2% California state tax) on the taxable portion of your withdrawal for premature withdrawal from a retirement fund. In our example, that amount would be \$100 for federal and \$25 for California. Considering this penalty, a taxable withdrawal of \$1,000 leaves you with only \$675 after paying the 20% withholding and penalties. But, remember that your real tax liability could be more or less, depending on your particular tax circumstances. You will be responsible for any additional tax owed, or for claiming a refund, when you file your income taxes at the end of the year.

- If you are *over age 55* this extra penalty will not apply when you terminate service with the County or a District and receive a withdrawal. Also, the penalty does not apply in the case of certain disabilities or medical expenses. However, the 20% withholding tax applies regardless of your age.

**Special 60-day rollovers – after receiving your withdrawal**

If you take a cash withdrawal and then decide that you do not need the money now, you can avoid current taxes, but it is not easy. You can make a 60-day rollover of the taxable portion of your withdrawal. This avoids tax on the amount you actually roll over within 60 days of the date on which you receive your check from LACERA. (You can roll over only the taxable amount; you cannot roll over the nontaxable portion of your contributions.)

For example, if the taxable portion of your LACERA account is \$1,000 and you take a

### Withdrawal Amounts That Cannot Be Rolled Over

Any after-tax (already taxed) contributions you have made to LACERA are *nontaxable*. They cannot be rolled over and will be paid to you. No taxes will be withheld from these contributions.

### IRA Considerations

Before you roll over your withdrawal to an IRA, we recommend you check the terms of the IRA to understand the regulations about withdrawing your funds from the IRA, and if there are any penalties on withdrawal imposed by the IRA sponsor or the IRS.

The 20% withholding does not apply to withdrawals from an IRA, therefore, you may wish to consider "parking" your LACERA withdrawal in an IRA until you actually need it. This will avoid the upfront 20% tax, and you will not owe taxes on it until you withdraw your IRA funds. However, there is a tax trap you need to consider: If you roll to an IRA and then take the money before 59-1/2 there is a substantial chance of a penalty tax for early withdrawal (10% federal and 2-1/2% for California).

### WITHDRAWALS PAID TO YOU

The taxable portion of your withdrawal, if paid to you, 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 IRA or another employer's qualified plan that accepts rollovers. If you do not roll it over, special tax rules including penalty taxes may apply.

### Income Tax Withholding

If any part of the taxable portion of your withdrawal is paid to you, LACERA must withhold 20% of that amount for federal income taxes. For example, let's say the taxable portion of your LACERA contributions is \$1,000, and you decide to take the money. Because of the withholding rules,

## DEFERRALS

### DEFERRED RETIREMENT BENEFITS

You may defer receiving a retirement allowance if you:

- Have a minimum of 5 years of County/District retirement credit, or
- Become a member of a reciprocal retirement system within 6 months after termination of employment, and
- Complete and sign a Deferral/Withdrawal Form within 180 days after termination.

The IRS limits your ability to defer your retirement beyond age 70-1/2.

If you choose to defer receiving your retirement allowance, you have the following rights and obligations:

1. You will receive regular interest on your LACERA contributions, credited each June 30 and December 31.
2. If you have been a member of LACERA for at least 10 years, you may receive your deferred retirement allowance at any time after you reach age 50, at any age after 30 years of general membership, or 20 years of safety membership, or at age 70.
3. Any time before your retirement date, you may elect in writing to cancel your deferred retirement and withdraw your contributions and interest, unless you are covered by reciprocal membership in another retirement system. (See "Reciprocal Benefits" on page 5).
4. If you are reinstated to County or District service, you may resume membership in LACERA at the contribution rate applicable to your age at the time you first became a member.

5. *You must keep LACERA informed of your current address.*
6. *If you die while you are on deferred status, your beneficiary will receive a death benefit that consists of your contributions and interest.*

#### **RECIPROCAL BENEFITS WITH OTHER RETIREMENT SYSTEMS IN CALIFORNIA**

As a member of LACERA, if you leave County or District service and accept employment covered by (1) the Public Employees' Retirement System (PERS), or (2) any other County Employees Retirement System established under the 1937 County Employees Retirement Law, or (3) any other reciprocal retirement system, you will have certain rights and obligations if you want to receive reciprocal benefits:

- You must join another retirement system within 6 months after you terminate employment, and
- You must leave your contributions on deposit with LACERA by filing an application for deferred retirement with LACERA (regardless of length of service).

**If you are a reciprocal member, you have the following rights:**

1. Your rate of contribution in the new retirement system will be based on your age when you became a member in the first system,
2. The service credit you earn under each system will be added together to qualify you for retirement benefits under all systems, and
3. If you retire from service, become disabled, or die, your highest earnings under any of these systems will be used to determine your LACERA benefits.

Contributions you leave on deposit in LACERA *cannot be withdrawn* while your employment is covered by reciprocal membership in any other system.

If you accept other public employment and want to find out if reciprocity is available to you, contact LACERA at (818) 564-6132 or (800) 786-6464 or write to: LACERA, Retirement Services Division, PO Box 7060, Pasadena, CA 91109-7060.

#### **WITHDRAWALS**

A withdrawal from LACERA can be received in two ways: (1) The taxable portion can be rolled over to an IRA with a check made out *directly to the IRA* or another employer's qualified retirement plan, or (2) All or any portion of your withdrawal can be paid in a check made out *directly to you*. The choice you make will affect the taxes you owe.

#### **WITHDRAWALS PAID TO AN IRA**

You can choose a direct rollover of all or any percentage of the taxable portion of your contributions. You must designate the IRA or qualified plan that will receive the rollover and provide LACERA with the information needed to properly make out the rollover check when you complete the Deferral/Withdrawal Form.

#### **Withdrawal Amounts That Can Be Rolled Over**

Only the taxable portion of your withdrawal is eligible for a rollover. The before-tax (not yet taxed) contributions you have made to LACERA, plus the interest they have earned, are *taxable* when they are paid to you. If you roll them over directly to an IRA, you can avoid the 20% tax withholding. Note: The IRS limits the amount you can rollover after age 70-1/2.