LACERA
Los Angeles County Employees Retirement Association
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SUMMARY OF WITHHOLDING TAX REQUIREMENTS ON WITHDRAWALS FROM LACERA

What is the tax law?

Beginning January 1, 1993, Federal tax law requires LACERA to automatically withhold 20% tax from a *lump sum distribution* of taxable retirement contributions paid directly to you.

- *This law will affect you* if you terminate County or District service for any reason before retirement and receive a check for the lump sum *withdrawal of your taxable contributions including interest.*
- Other forms of payment — such as a lifetime monthly retirement allowance — are not subject to this law.

How can you avoid this automatic tax?

(1) If you are terminating service and are eligible for *deferred retirement*, you can leave your contributions on deposit with LACERA and let them continue to earn interest until you are eligible to draw a monthly retirement benefit. You will not owe taxes on your retirement contributions until you withdraw them.

Or,

(2) You can tell LACERA to make a *direct rollover to an IRA*. The check will be made payable to the IRA financial institution. The tax is deferred until you withdraw your IRA funds, so there is no automatic withholding. In some cases you can have a direct rollover to another employer's qualified retirement plan.

(3) There is another type of rollover available to you — a **"60-day rollover."** If you receive the lump sum payment and then change your mind, you can roll over your money to an IRA within 60 days, but the 20% withholding tax will still apply to the taxable contributions you receive. Tax treatment for this type of rollover is complicated.

The 20% withholding tax law has several *tax traps*.

LACERA must withhold 20% of the taxable portion of your withdrawal for federal income tax when making payment to you.

- 20% tax may be more than you actually owe. The only way to get the extra money back is to claim a refund from the IRS when you file your income tax return.
- It also may be too little, so you may have additional taxes to pay.
- Please note that if the check for the taxable portion is made out to you, you may owe additional state taxes, and may have state and federal penalties to pay.

What's the next step?

- Read the enclosed booklet that explains the law in detail and how it will affect you.
- Then complete the form to request a **deferral** (with or without **reciprocity**), **withdrawal**, or **rollover** of your retirement contributions upon terminating service with the County.

For more information

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. You may want to discuss the various tax implications with a financial or tax advisor before making your decision.

You may also request LACERA's *IRA Rollover/Tax Laws* brochure for more detailed information. If you have any questions about your retirement benefits, please contact LACERA at 818-564-6132 or 800-786-6464.