



Los Angeles City Employees' Retirement System (LACERS)
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TAX NOTIFICATION

IMPORTANT TAX INFORMATION FOR MEMBERS REGARDING YOUR LACERS REFUND

The Los Angeles City Employees' Retirement System (LACERS) is required to provide you with this notice under Section 402(f) of the Internal Revenue Code. This notice is not intended as tax advice but merely summarizes federal tax rules that might apply to your payment. The Internal Revenue Code is complex and contains many conditions and exceptions that are not included in this notice. You may choose to consult a tax professional before making a decision.

The information provided below only applies to contributions upon which you have not yet been taxed, which are taxable to you in the year of receipt unless you roll it over as discussed below. Contributions that you made to LACERS with after-tax money (money on which you have already paid taxes, such as contributions made to LACERS before January 1, 1986 and any after-tax contributions made to purchase service credit) will not be taxed when paid to you and cannot be rolled over.

If you choose a direct rollover

- Your payment will not be taxed in the current year and no income tax will be withheld.
- Your payment will be made directly to your traditional Individual Retirement Account (IRA) or to a qualified retirement plan that accepts your rollover. (Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or an Education IRA.)
- Your payment will be taxed later when you take distribution from the traditional IRA or the qualified retirement plan.

If you choose to receive a distribution of funds eligible for a rollover

- LACERS is required to withhold 20% of the taxable portion for federal income tax.
- The full taxable portion, including the 20% withheld, will be taxed in the current year unless you roll it over to a traditional IRA or other qualified retirement plan within the 60-day rollover limit. (See example on Side 2 of this sheet.)
- If you are not age 55 or older during the year you receive this payment, your distribution will be subject to an early withdrawal penalty on the taxable portion unless you roll it over within the 60-day rollover limit. The federal and state penalties consist of an additional tax of 10% and 2 ½ % respectively.
- If you were born before January 1, 1936, you may be entitled to special tax treatment on this lump-sum distribution – ask LACERS for further information or consult your tax advisor.

How to make your choice

A *Distribution Election Form* will be provided by LACERS so that you can choose: (1) to have a check made out directly to you OR (2) a direct rollover to a traditional IRA or a qualified retirement plan OR (3) a combination of a payment to you and a direct rollover. You must sign the form in the presence of a LACERS representative and show proper identification; otherwise, your signature must be notarized.

You may wish to consult a tax advisor before making this decision. You can also find further federal tax information in IRS Publication 575, *Pension and Annuity Income*, which is available from your local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORMS.

If you choose to roll over distribution within 60 days after receiving a refund

If you do not do a direct rollover, you can still roll over your distribution within 60 days into a traditional IRA or a qualified retirement plan and avoid taxation on the funds as explained in the example below:

Assume you receive an in-hand taxable distribution of \$50,000. LACERS will withhold 20% of \$50,000 or \$10,000 for federal taxes and send it to the Internal Revenue Service. The remaining \$40,000 will not be a complete rollover of the original \$50,000. Therefore, if you later decide to roll over the \$40,000 into an IRA within the 60-day limit, one of two things will likely take place:

1. You must come up with and pay into the IRA the additional \$10,000 out of your own pocket to make up the difference and thus avoid paying the tax;

OR

2. You will be taxed on \$10,000. When you file your federal income tax return for the year in which you received the distribution, the \$10,000 already withheld will be credited against the tax due. You may get a refund of a portion of the \$10,000, depending on the amount of tax you owe on other income. If you are under age 55 the year of the distribution, you are also subject to the respective 10% and 2½ % federal and state penalty on the \$10,000.

If you choose to receive a check payable to you, remember the following:

- You will not receive the full amount of the refund since LACERS is required to withhold 20% of your taxable distribution for federal income taxes – the only way to avoid the 20% mandatory withholding is to do a direct rollover.
- Unless you do a rollover within 60 days (see above example), you will be subject to taxes on the full amount of the taxable distribution. Also, if you are not age 55 or older during the year of distribution, you may be subject to early distribution penalties.

Important tax information for spouse or former spouse of member

The rollover rules and mandatory 20% tax withholding rules set forth above also apply to:

- A spouse or former spouse who receives contributions based upon a domestic relations order
- A spouse who receives contributions due to the Member's death.

A spouse or former spouse, however, is not subject to early distribution penalties that apply to the Member.