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## LARGER ANNUITY PROGRAM – ALL MEMBERS

### LARGER ANNUITY PARTICIPATION DURING ACTIVE SERVICE

#### Background

The Larger Annuity Program (LAP) is a retirement savings plan that allows Members to set up an account and make post-tax supplemental retirement contributions to LACERS. At the time of retirement, Members choose from several options regarding those contributions and the interest or returns that have accrued. In addition, the LAP allows Members to transfer funds from other qualified retirement plans to be converted into an annuity at the time of retirement.

- ***What is LACERS' Larger Annuity Program?***

LACERS' LAP provides the following features:

- 1) A method to save/invest additional funds toward retirement while an active employee; and
- 2) The option to convert the value of your LAP account into a monthly annuity at the time of retirement based on your selection of available monthly annuity options to supplement your LACERS retirement benefit.

- ***Who may participate in the Larger Annuity Program?***

Active Members who have a bona fide interest in purchasing a Larger Annuity may participate in the program subject to Internal Revenue Service (IRS) limitations discussed below. **The LAP may not be used to pass-through funds to another financial institution to avoid IRS limitations or restrictions, and LACERS reserves the right to deny such contributions.**

- ***How can Members make contributions toward a Larger Annuity?***

Members have the option of making post-tax lump-sum payments, in the form of a personal check or cashier's check, or having post-tax deductions taken from their paychecks.

Members may also roll over pre-tax funds from a qualified retirement plan to LACERS through a trustee-to-trustee rollover.

- ***Can Members roll over money from a qualified retirement fund?***

Yes, but only when a Member is an active employee prior to retirement. Trustee-to-trustee rollovers may only be made from an eligible retirement plan, as that term is defined in Internal Revenue Code (IRC) section 402(c)(8)(B). Many retirement plans, other than Roth IRAs, meet this qualification.

- ***Can Members roll over funds from their Deferred Compensation plan during active membership?***

No. A Member can elect to roll over their Deferred Compensation funds only after they have filed for retirement and have been informed of their Retirement Effective Date (RED). The request for rollover must

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be submitted prior to their RED.

- ***What if the Member does not know if the other fund is a qualified plan?***

One of the distinguishing features of a qualified fund is that the earnings received on the Member's investment are tax deferred until distributed. Eligible retirement funds are defined in IRC section 402(c)(8)(B). The Member must verify with the administrator of the other plan that it is an eligible retirement plan, and provide LACERS with a rollover certification from the plan administrator prior to rolling over the funds.

- ***Are there contribution limits?***

Yes. The contribution limits depend on the type of funds contributed to the plan.

Contributions made on a post-tax basis are limited under the IRC section 415(c); the post-tax limit is determined annually based on IRC rules. **The 415(c) contribution limit for 2022 is \$61,000.**

Contributions made by a trustee-to-trustee rollover are limited under IRC section 415(b) and must be pre-tested before being accepted. **Members may not contribute to the purchase of a Larger Annuity if doing so increases their annual LACERS benefit payment to greater than \$245,000 for 2022**, adjusted by various factors specific to each Member's situation, such as: age at retirement, LACERS retirement benefit allowance, etc.

- ***Are there investment options?***

There are currently two options that Members may choose to invest their funds:

- 1) Interest based on the five-year Treasury Note (the same rate that is credited to mandatory contributions); or
- 2) Investment return on account based on the net-of-fees return of the publicly-traded portion of LACERS' investment portfolio. The return may be positive or negative.

The rates of return are found on LACERS' website at: <http://www.lacers.org/active/larger-annuity.html>

- ***How frequently can Members change investment options?***

The Member can change their investment option **once per twelve-month period**. The entire account will be transferred to the new investment option. Transfers will be processed at the second month after the request, once applicable interest/earnings for the month are posted.

- ***What happens to the Larger Annuity funds already on deposit if the Member terminates City employment?***

If the Member is **Vested**, they can:

- 1) Leave their Larger Annuity funds with LACERS to be converted into an annuity upon retirement;
- 2) Receive a refund (subject to withholding and taxes);
- 3) Roll the funds into another qualified retirement plan if the distribution is an eligible rollover distribution; or
- 4) Elect a combination of different options upon termination of employment or retirement.

If the Member is **Not Vested**, they can:

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- 1) Receive a refund (subject to withholding and taxes);
- 2) Roll the funds into another qualified retirement plan if the distribution is an eligible rollover distribution; or
- 3) If the Member is eligible for reciprocity, the Member may leave their Larger Annuity funds with LACERS and upon vesting, convert the value of the LAP account into an annuity upon retirement.

Note: If the Member is not vested and elects a refund of their LACERS' retirement contributions, the Member's Larger Annuity funds will also be refunded. In addition, the Member must be vested and must receive a LACERS monthly benefit in order to be eligible to convert the value of the LAP account into an annuity at retirement.

- ***Are refunds allowed?***

A Member may receive a refund **once during their term of membership**. The refund option is available to Members who have held a larger annuity account for **at least six months**. Transfers will be processed at the second month after the request, once applicable interest/earnings for the month are posted.

- ***What happens if the dissolution of marriage occurs after the Member elects a Larger Annuity?***

The Member's Larger Annuity funds may be considered community property and may be subject to community property division upon the dissolution of marriage.

## **LARGER ANNUITY OPTIONS AT RETIREMENT**

- ***If I have Larger Annuity funds on deposit with LACERS, what are my options at retirement?***

You may choose from any one of the following three options or a combination thereof:

- 1) Purchase a monthly Larger Annuity Allowance at the time of retirement. Applications must be received prior to your RED.
- 2) Receive a cash refund of your LAP account less all applicable tax withholdings and tax liabilities.
- 3) Roll over your LAP funds to another qualified retirement plan.

- ***What if I do not already have funds on deposit in the LAP, can I still purchase a Larger Annuity at retirement?***

You may purchase a Larger Annuity prior to your retirement effective date using your own funds if you are an active member. All funds must be on deposit with LACERS prior to your retirement effective date, the only exception being funds coming from the Los Angeles City's Deferred Compensation Plan.

- ***Are there limits to what I can deposit into the Larger Annuity Account?***

Yes. The contribution limits depend on the type of funds contributed to the plan and are subject to IRC limitations.

Contributions made on a post-tax basis are limited under IRC section 415(c). The post-tax limit is determined annually based on IRC rules. The 415(c) contribution limit for 2022 is \$61,000. Please speak to a counselor for more information on IRC limits at the time of your retirement.

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Although there are no specified dollar limits for pre-tax rollovers, contributions are also subject to restrictions under IRC section 415(b). The IRC section 415(b) limit will depend on various factors specific to your situation, such as your age at retirement, the age of your joint annuitant, your retirement benefit allowance and your projected monthly LAP payment. Furthermore, IRC limitations have the potential of prohibiting the full or partial purchase of any annuity.

Note: Your LAP payment will only be established when the monthly value is at least \$50.

- ***Is there a cost of Living Adjustment for the Larger Annuity?***

There is no Cost of Living Adjustment. However, there is a fixed 3% annual increase applied July 1<sup>st</sup> of each year. The increase is prorated your first year of retirement at the rate of 1/12<sup>th</sup> of 3% for each full month in the year you retire.

- ***Are the increases simple or compounded?***

Annual LAP increases are compounded.

- ***What is the rate of return of my payment/allowance?***

There is no rate of return on a purchased annuity. You are no longer contributing to the LAP for investment purposes; therefore, you do not earn interest.

- ***Do I have to leave a continuance?***

No, the LAP does not require you to leave a continuance to anyone. However, you may leave any unused funds to your designated beneficiaries.

- ***Will my Larger Annuity check be taxable?***

Your Larger Annuity benefit is taxable if you used pre-tax funds for your annuity. If you contributed post-tax funds that earned interest, your benefit will be taxable up to the amount of annuity representing interest earned from your post-tax contributions.

- ***When would I receive my first check?***

If you have Larger Annuity funds on account with LACERS, you will receive your first annuity check at the same time you receive your first retirement check.

If you are rolling funds over from Deferred Compensation, you will receive your first check the month following LACERS' receipt of your Deferred Compensation funds. No interest will accrue during this period.

Note: Deferred Compensation Plan (457) Funds: If you elect to purchase an annuity by rolling 457 Funds to LACERS, you must elect to roll over the funds prior to your retirement effective date. Although LACERS allows 457 funds to roll over after retirement, your annuity payments will not commence until LACERS receives the funds and has the opportunity to set up the benefit.

- ***What are the advantages to purchasing an annuity from LACERS?***

You will receive payments for life with a fixed 3% annual increase. Because LACERS is not a for profit entity, there are no fees charged for the purchase of this annuity. You can purchase a single-life annuity

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or a continuance for your spouse, domestic partner or anyone of your choosing.

- ***Is the Larger Annuity Program insured under the Federal Deposit Insurance Corporation (FDIC) or any insurance program?***

The LACERS Larger Annuity Program is an investment vehicle offered by LACERS and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The LACERS Larger Annuity Program is not a deposit, and is not the obligation of, or guaranteed by, LACERS, any bank, or any institution. Because the LAP must be cost neutral, pursuant to the Los Angeles Administrative Code (LAAC), the LACERS Larger Annuity Program is subject to investment risks, including the possible loss of the principal invested.

- ***Are the LAP and its components guaranteed?***

The LAAC provides for the authority for the LACERS Board of Administration to administer the LAP, including adopting rules to provide for an additional annuity at the time of retirement. In addition, the LAAC requires that the program be cost neutral; therefore, the rules adopted by the Board are subject to review and can be changed at any time to ensure that the LAP is and remains cost neutral.

- ***How can Members participate in the Larger Annuity Program?***

To participate in the Larger Annuity Program, complete the *Initiation or Change of Contribution Amount* form and return it to LACERS.

This form is available on our website at [www.LACERS.org](http://www.LACERS.org).

If you have any questions or need any assistance in completing the form, please contact us at (800) 779-8328; TDD (888) 349-3996.

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