District of Columbia Retirement Board (DCRB)
Benefits Department
900 7th Street NW, 2nd Floor ● Washington, DC 20001
Telephone: (202) 343-3272 ● Toll Free: (866) 456-3272 ● Fax: (202) 566-5001
www.dcrb.dc.gov

SPECIAL TAX NOTICE REGARDING ROLLOVERS

District of Columbia Police Officers and Firefighters' Retirement Plan

This Notice is provided to you because all or part of a lump-sum payment you will soon receive from the **District of Columbia Police Officers and Firefighters' Retirement Plan** (Police & Fire Plan) may be eligible to be rolled over to an IRA or an eligible employer plan. This Notice is intended to help you decide whether to rollover your lump-sum payment. A rollover will postpone any taxation until you later receive payment.

Lump-sum payments from the Police & Fire Plan may consist of post-tax and/or pre-tax contributions. A payment or portion of a payment that includes post-tax contributions is not taxable to you upon receipt but a payment or portion of a payment that includes pre-tax contributions is taxable to you upon receipt and is subject to a mandatory 20% withholding tax, and an additional 10% income tax if you are under age 59 ½ and an exception does not apply.

You have at least 30 days to consider whether or not to have your payment directly rolled over or paid to you. If you do not wish to wait until the 30-day notice period ends before making your election, you may waive this notice period by making your election where indicated on the *Application for Refund of Plan Contributions* or the *Unpaid Deceased Member Contributions Payment Application* and submitting the application to DCRB. DCRB will process your payment election as soon as practical after receipt.

Please be aware that if you are a terminated Police & Fire Plan participant with less than 5 years of service under the Police & Fire Plan, you are required to be refunded. Therefore, if you do not make a timely payment election after your termination, DCRB will pay you directly.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes? If your lump-sum payment consists of pre-tax contributions, a rollover allows you to postpone taxation of the payment until it is later paid to you. Also, future investment earnings on your rolled over amount accrue tax-free.

If you do not rollover your taxable payment, you will be taxed. Also, if you are under age 59 ½, you may have to pay an additional 10% income tax on early distributions. However, if you do a rollover, you will not have to pay tax until you receive payments later and the additional 10% income tax will not apply if those payments are made after you are age 59 ½.

DCRB will be required to withhold 20% of any taxable amount that is not rolled over and your taxable payment may also be subject to state or local income tax withholding. If you are a resident of the District of Columbia, your payment will be subject to mandatory tax withholding at the highest District tax rate (*D.C. Code § 47-1812.08(m)*).

Where may I roll over my payment? You may roll over your payment to either an IRA (traditional or Roth) or an employer plan (a 401(a) tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. Only the taxable portion of the payment can be rolled over to a governmental 457(b) plan and if you rollover the taxable portion to a Roth IRA, you will still have to pay income taxes.

The rules of the IRA or employer plan that accepts the rollover will determine your investment options, fees, and rights to payment (for example, spousal consent rules or plan loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan. For example, amounts rolled over to a governmental 457(b) plan are still subject to the additional 10% income tax on early distributions.

How do I do a rollover? There are two ways to do a rollover. You can do either a ***direct rollover*** or a ***60-day rollover***.

> If you do a **direct rollover**, DCRB will make the payment directly to your IRA or employer plan by issuing a check made payable to the IRA/employer plan. The check will be sent to you for transmittal to the IRA/employer plan. You will incur no taxes (except for rollover of a taxable portion to a Roth IRA). You should contact the IRA sponsor or the employer plan administrator for information on how to do a direct rollover and if they will accept your rollover from the Police & Fire Plan.
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> If you do a ***60-day rollover*** instead of a ***direct rollover***, DCRB will issue a check payable to you and you will have up to 60 days after you receive the payment to deposit the amount of the payment into an IRA or eligible employer plan. Because a ***60-day rollover*** is not a ***direct rollover***, DCRB will withhold 20% of the taxable payment for federal income taxes. This means that to roll over the entire taxable payment in a 60-day rollover, you must use other funds to make up for the 20% withheld for taxes. If you do not roll over the entire amount of the taxable payment, the taxable portion not rolled over will be taxed and may be subject to the additional 10% income tax on early distributions.

How much may I roll over? You may rollover all or part of your lump-sum payment as long as the receiving IRA or employer plan accepts the rollover.

If I don't do a rollover, will I have to pay the additional 10% income tax on early distributions? If you are under age 59 ½, you will have to pay the additional 10% income tax on early distributions for any payment from the Police & Fire Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over.

For purposes of your lump-sum payment from the Police & Fire Plan, the additional 10% income tax does not apply to:

- Payments made after you separate from service if you are or will be at least age 50 in the year of separation;
- Payments after your death; or
- Payments made directly to the government to satisfy a federal tax levy.

If I do a rollover to an IRA, will the additional 10% income tax apply to early distributions from the IRA? If you receive a payment from an IRA when you are under age 59 ½, you will have to pay the additional 10% income tax on early distributions from the IRA, unless one of the following exceptions applies:

- Payments made due to disability;
- Payments after your death;
- Payments made to satisfy a federal tax levy;
- Payments up to the amount of your deductible medical expenses;
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days;
- Payments for qualified higher education expenses;
- Payments up to $10,000 used in a qualified first-time home purchase;
- Payments after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status); or
- A special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse.

SPECIAL RULES AND OPTIONS

If your payment includes after-tax contributions: After-tax contributions included in your lump-sum payment are not taxed. The following rules apply when you do a rollover.

Rollovers to an IRA: You may roll over to an IRA a payment that includes after-tax contributions through either a ***direct rollover*** or a ***60-day rollover***. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). If you do a ***direct rollover*** of only a portion of your payment with the remaining portion paid to you, the portion directly rolled over from the Police & Fire Plan will consist of the taxable portion (pre-tax contributions). For example, assume your lump-sum payment is $12,000, of which $2,000 is after-tax contributions. In this case, if you directly roll over $10,000 to a traditional IRA, no amount is taxable because the $2,000 amount not directly rolled over is treated as after-tax contributions. If you directly rollover the entire $12,000, to two or more retirement vehicles at the same time, you can choose which retirement vehicle receives the after-tax contributions.

If you do a ***60-day rollover*** to an IRA of only a portion of a payment made to you, the after-tax contributions are treated as rolled over last. For example, assume your lump-sum payment is $12,000, of which $2,000 is after-tax contributions, and no part of the distribution is directly rolled over. If you roll over $10,000 to a traditional IRA in a ***60-day rollover***, no amount is taxable because the $2,000 amount not rolled over is treated as after-tax contributions.

Rollovers to an Employer Plan: You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a ***direct rollover*** (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a ***60-day rollover*** to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable (pre-tax contributions) if not rolled over.

If you miss the 60-day rollover deadline: Generally, the 60-day rollover deadline cannot be extended. However, the IRS may waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must file a private letter ruling (PLR) request with the IRS. PLR requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590, *Individual Retirement Arrangements (IRAs)*.

If you roll over your payment to a Roth IRA: If you roll over your lump-sum payment to a Roth IRA, a special rule applies under which the taxable amount of the payment rolled over will be taxed. However, the additional 10% income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59 ½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to $10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the additional 10% income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, *Individual Retirement Arrangements (IRAs)*.

Payments after death of the participant: If you receive a taxable lump-sum payment after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described above in this Notice.

If you are a surviving spouse: If you receive a lump-sum death benefit payment consisting of a refund of contributions from the Police & Fire Plan as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59 ½ will be subject to the additional 10% income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70 ½.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the additional 10% income tax on early distributions. However, if the participant was age 70 ½ and subject to required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant was not yet subject to required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70 ½.

If you are a surviving beneficiary other than a spouse: If you receive a taxable lump-sum payment consisting of a refund of contributions from the Police & Fire Plan because of the participant's death and you are an individual who was a designated beneficiary (as determined by the terms of the Police & Fire Plan which may include a written designated beneficiary or default beneficiary) other than a surviving spouse, the only rollover option you have is to do a ***direct rollover*** to an inherited IRA. Payments from the inherited IRA will not be subject to the additional 10% income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA beginning at age 70 ½.

If you are a nonresident alien: If you are a nonresident alien and you do not do a ***direct rollover*** to a U.S. IRA or U.S. employer plan, instead of withholding 20%, DCRB is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, *U.S. Tax Guide for Aliens*, and IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*.

Other special rules: If your lump-sum payments from the Police & Fire Plan for the tax year are less than $200, the mandatory 20% federal tax withholding does not apply. DCRB is not required to allow you to do a ***direct rollover***. However, you may do a ***60-day rollover***. Also, if your payment is $1,000 or less and you have made no payment election, DCRB may pay it to you directly without your consent. Any taxable portion will be subject to the 20% mandatory tax withholding.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, *Armed Forces' Tax Guide*.

FOR MORE INFORMATION

You may wish to consult with a professional tax advisor before taking your lump-sum payment from the Police & Fire Plan. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, *Pension and Annuity Income*; IRS Publication 590, *Individual Retirement Arrangements (IRAs)*; and IRS Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans)*. These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.