



# Federal Withholding Requirements and Rollover Options

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## Your Rollover Options

You are receiving this notice because all or a portion of a payment you are receiving from the Wisconsin Retirement System is eligible to be rolled over to an individual retirement account (IRA) or an employer plan. This notice is intended to help you decide whether to do such a rollover. This notice is based on IRS Notice 2009-68. See that notice and IRS Publication 575, "Pension and Annuity Income" for more information.

Rules that apply to most payments from the WRS are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances, including rollovers to Roth IRAs, are described in the "Special Rules and Options" section.

## General Information about Rollovers

### 1. How can a rollover affect my taxes?

You will be taxed on a payment from the WRS if you do not choose a rollover. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions, unless an exception applies. Exceptions are listed on the next page in Question 5. However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

### 2. Where may I roll over the payment?

You may roll over your lump sum payment or annuity certain of less than 120 months to:

- a traditional IRA;
- a Roth IRA; or
- an eligible employer plan, which includes a tax-qualified plan, a section 403(b) plan or a governmental 457(b) plan. The receiving plan must agree to accept the rollover.

The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

### 3. How can I rollover my benefit?

There are two ways to rollover your benefit. You can do a direct or indirect rollover.

- A. If you choose a direct rollover, the WRS will make the payment payable directly to your IRA or an employer plan. The WRS will send the check to you, and you must send it to the IRA or employer plan. Complete the *Authorization for Direct Rollover* (ET-7355) form and return it to ETF along with your benefit application. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover;
- B. If you choose an indirect rollover, you may still choose to rollover the benefit by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the WRS is required to withhold 20% of the payment for federal income taxes. This means that, in order to roll over the entire payment for an indirect rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

#### 4. How much may I roll over?

ETF can tell you what portion of a payment is eligible for rollover. You may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary).
- Required minimum distributions after age 70½ (born before 7/1/1949) or age 72 (born on or after 7/1/1949), or after death.
- Lump sum distributions of less than \$200.
- Corrective distributions of contributions that exceed tax law limitations.

#### 5. If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?

If you are younger than age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the WRS (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.

The 10% additional income tax does not apply to the following payments from the WRS:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Payments from a government-defined benefit pension plan made after you separate from service if you are a public safety employee as defined by federal law and you are at least age 50 in the year of the separation
- Payments made due to disability
- Corrective distributions of contributions that exceed tax law limitations
- Payments after your death
- Payments made directly to the government to satisfy a federal tax levy
- Payments made under a qualified domestic relations order (QDRO)
- 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

#### 6. If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- There is no exception for payments after separation from service that are made after age 55.
- The exception for qualified domestic relations orders (QDROs) does not apply. Although 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 as determined under federal law.
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to \$10,000 used in a qualified first-time home purchase, and (3) 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).

#### 7. Will I owe state income taxes?

This notice does not describe any state or local income tax rules (including withholding rules). Please check with your state's department of revenue if you have specific questions about state or local income tax rules.

## Special Rules and Options

### 1. If your payment includes after-tax contributions

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment. If you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a payment.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or an indirect 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 the amount paid from the WRS and a portion is paid to you, each of the payments will include an allocable portion of the after-tax contributions. If you do an indirect rollover to an IRA of only a portion of the payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit which totals \$12,000, of which \$2,000 is after-tax contributions. In this case, if you roll over \$10,000 to an IRA in an indirect rollover, no amount is taxable because the \$2,000 amount not rolled over is treated as being after-tax contributions.

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 an indirect rollover to an employer plan of part of a payment that includes after-tax contributions, up to the amount of the payment that would be taxable if not rolled over.

### 2. If you miss the indirect rollover deadline

The indirect rollover deadline cannot generally be extended. However, the IRS has the limited authority to 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 request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

### 3. If you were born on or before January 1, 1936

If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

### 4. If you are an eligible retired public safety officer and your pension payment is used to pay for health coverage or qualified long-term care insurance

If you retired as a public safety officer as defined by federal law and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income plan payments paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of \$3,000 annually. For this purpose, a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew, as defined by federal law.

### 5. If you roll over your payment to a Roth IRA

If you roll over the payment to a Roth IRA, a special rule applies under which the amount of the payment rolled over, reduced by any after-tax amounts, will be taxed. The 10% additional income tax on early distributions will, however, 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 59½ (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 10% additional 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). You cannot roll over a payment from the WRS to a designated Roth account in an employer plan.

## 6. If you are not a WRS participant

**A. Payments after death of the participant.** If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers as defined by federal law do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the participant was born on or before January 1, 1936.

**I. If you are a surviving spouse.** If you receive a payment from the WRS as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. 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 59½ will be subject to the 10% additional 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 70½ (born before 7/1/1949) or age 72 (born on or after 7/1/1949). If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from the WRS, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½ (born before 7/1/1949) or age 72 (born on or after 7/1/1949).

**II. If you are a surviving beneficiary other than a spouse.** If you receive a payment from the WRS because of the participant's death and you are a designated 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 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

**B. Payments under a qualified domestic relations order.** If you are the spouse or former spouse of the participant who receives a payment from the WRS under a qualified domestic relations order (QDRO), you generally have the same options the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). Payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

## 7. 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%, the WRS 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 an indirect 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.

## 8. Other special rules

If a payment is one in a series of payments for less than 120 months, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than \$200, the Plan is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do an indirect rollover. 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 a payment from the WRS. 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 or on the web at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORM.