Important information about your PERA refund and taxes

Your plan's refund

Basic, Coordinated, Correctional, Police & Fire

Regardless of your length of service, you are entitled to a refund of your employee contributions plus interest, compounded annually, after you terminate public employment. Should you elect to receive a refund, your employer's matching contributions are not refundable. They remain with PERA and are used for retirement, disability, and survivor benefits provided by the association.

A refund is payable in a lump sum between 30 and 120 days after PERA receives your application. By taking a refund, you forfeit all future PERA benefits. Non-vested inactive members must apply for a refund within five years of the last PERA member contributions or risk forfeiture of their member contributions and interest from PERA. See reverse side for refund options.

How refunds work with a Defined Contribution Plan (DCP)

Your refund is available upon termination of public employment, disability, or death. If you are still employed by a public employer *and* age 65 or older, you are also eligible for a refund of your DCP account. Your refund will include employee and employer contributions plus investment earnings based on the date we calculate your refund. Generally PERA issues DCP refunds within 45 days after receipt of your completed application.

Forms of DCP payments:

- **Total Distributions:** This is a total refund of your account balance.
- **Partial Distribution:** For active employees 65 or older, minimum distribution is $5,000.
- **Periodic Withdrawal:** Current or former DCP participants who become disabled may withdraw from their accounts in equal monthly installments.

To receive the proper forms and more information about this option, call PERA at 651-296-7460 or 1-800-652-9026.

For more information

You may want to consult with a professional tax advisor before you take a refund from PERA.

For more information, see the following:

IRS Publication 575, Pension and Annuity Income

IRS Publication 590, Individual Retirement Arrangements

These publications are available from your local IRS office, online at www.irs.gov, or by calling 1-800-TAX-FORM.

Tax-qualified status

All of PERA's retirement plans are qualified plans under chapter 401(a) of the U.S. Internal Revenue Code.

As a qualified tax-deferred plan, your PERA pension plan comes under the jurisdiction of the U.S. Internal Revenue Service (IRS) and must comply with rules the IRS issues with regard to such plans. A refund from PERA must comply with IRS requirements.

Taxability of your PERA contributions

Employee contributions you made to PERA have been tax deferred on both the state and federal level since the early 1980s. Employee contributions made after December 31, 1982, and the interest paid to you by PERA on these contributions, have not been taxed and are considered taxable income unless rolled over to another tax-deferred account. You have already paid federal and state taxes on employee contributions made to PERA before January 1, 1983. Thus, employee contributions made before these dates are not subject to income taxes.

Your Refund Options

For a refund application, visit our website at www.mnpera.org. Go to the *Members Forms & Publications* page.

If you choose a direct rollover:

- Complete PERA's Trust-to-Trust Transfer form (which is part of the refund application itself).
- Your refund will not be taxed in the current year and no income tax will be withheld.
- Your refund will be sent directly to your traditional IRA or, if you choose, to another employer plan that accepts your rollover.
- Your refund will be taxed later when you take it out of the IRA or the new employer plan.

If you choose to have your refund paid to you:

- If your refund is paid directly to you, PERA is required by law to withhold 20 percent of that portion of the refund that has been tax deferred. This amount is sent to the IRS as federal income tax withholding.
- PERA does not withhold state tax from your refund.
- The amount of your refund that has been tax deferred is considered taxable income in the year you receive it unless you transfer it to a traditional IRA or another plan that accepts rollovers within 60 days. However, if you receive the payment before age 59½, you may be subject to an additional 10 percent federal tax penalty. The additional 10 percent federal tax does not apply to your refund if it is paid to you because you separate from service with your employer during or after the year you reach age 55 (age 50 for qualified public safety employees)
- Sixty-Day Rollover Option: If you have a taxable refund paid to you rather than transferred by PERA to an eligible tax-deferred account, you can still decide to roll over all or part of it to a traditional IRA or another employer plan that accepts roll overs. If you decide to roll the distribution over, you must make the rollover within 60 days after you receive the refund from PERA. The portion of your refund that is rolled over will not be taxed until you take it out of the IRA or the employer plan.

- **Please note:** If you leave PERA-covered employment, your account becomes inactive. If you remain out of PERA service, are not vested, and do not apply for a refund within five years after your last member contribution was made, you will forfeit your member contributions and interest from PERA.

What payments can be rolled over to another tax-deferred plan?

The majority of a refund from PERA normally consists of tax-deferred funds. With a few exceptions, this money can be rolled over to an IRA or to another tax-deferred employer plan that accepts rollovers. PERA can tell you what portion of your refund consists of tax-deferred funds. However, **the following types of payments cannot be rolled over to a traditional IRA or other tax-deferred plans:**

- **Non-taxable payments.** In general, only the "taxable portion" of your refund is eligible for rollover to another tax-deferred plan. If you have made "after-tax" employee contributions to PERA, these contributions will be non-taxable when they are refunded to you, and cannot be rolled over to a tax-deferred program. However, they may be rolled over to a Roth IRA.
- **Rollover to a Roth IRA.** While the after-tax portion of a refund may not be rolled over to a tax-deferred program, it may be rolled over to a Roth IRA. This can be done by PERA as a direct rollover to an account you have established, or PERA can send you the after-tax amount and you can do the rollover yourself. If you wish to have PERA roll any or all of the tax-deferred portion of your refund to a Roth IRA, be aware that this is a taxable event and will be reflected in the Form 1099-R you receive from PERA. It is your responsibility to determine your ultimate tax liability and qualification for a Roth rollover. Thus, you may wish to consult with a tax advisor.
- **Payments spread over long periods.** You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for your lifetime and your beneficiary's lifetime (or life expectancies), or a period of ten years or more.
- That portion of any refund that represents a Required Minimum Distribution. This occurs if you are over age 70½ at the time you receive a refund.

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