Special Tax Notice Regarding Plan Payments

Your Rollover Options

You are receiving this notice because all or a portion of a payment you are receiving from the Utah Retirement Systems (URS) 401(k) or 457 Plan is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover. This notice describes the rollover rules that apply to payments from the Plan that are not from a designated Roth account (a type of account with special tax rules in some employer plans). Rules that apply to most payments from a plan are described in the “General Information About Rollovers” section. Special rules that only apply in certain circumstances are described in the “Special Rules and Options” section.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?
You will be taxed on a payment from the Plan if you do not roll it over. 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 from the 401(k) Plan (generally, distributions made before age 59½), unless an exception applies. 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).

What types of retirement accounts and plans may accept my rollover?
You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will 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.

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, the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. Generally, you will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the payment for federal income taxes. This means that, in order to roll over the entire payment in a 60-day 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).

How much may I roll over?
If you wish to do a 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 (or after death);
» Hardship distributions;
» Corrective distributions of contributions that exceed tax law limitations;
» Loans treated as deemed distributions (for example, loans in default due to missed payments before your employment ends);
» Cost of life insurance paid by the Plan; and
» Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.

The Plan administrator or the payor can tell you what portion of a payment is eligible for rollover.

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

If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the 401(k) Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax applies to the part of the distribution that you must include in income and 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 Plan:

- 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 governmental plan made after you separate from service if you are a qualified public safety employee and you will be at least age 50 in the year of the separation;
- Payments made due to disability;
- Payments after your death;
- Corrective distributions of contributions that exceed tax law limitations;
- Cost of life insurance paid by the Plan;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a domestic relations order (DRO);
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year);
- 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 of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution; and
- Payments for certain distributions relating to certain federally declared disasters.

**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 on the part of the distribution that you must include in income, 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:

- The exception for payments made after you separate from service if you will be at least age 55 in the year of the separation (or age 50 for qualified public safety employees) does not apply.
- The exception for domestic relations orders (DROs) 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).
- 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 for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

**Will I owe State income taxes?**

This notice does not describe any State or local income tax rules (including withholding rules).

**SPECIAL RULES AND OPTIONS**

**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 included in the payment, so you cannot take a payment of only after-tax contributions. However, 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. In addition, special rules apply when you do a rollover, as described below.

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 the amount paid from the Plan and at the same time the rest is paid to you, the portion directly rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of $12,000, of which $2,000 is after-tax contributions. In this case, if you directly roll over $10,000 to an IRA that is not a Roth IRA, no amount
is taxable because the $2,000 amount not directly rolled
over is treated as being after-tax contributions. If you do a
direct rollover of the entire amount paid from the Plan to
two or more destinations at the same time, you can choose
which destination 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 you
are receiving a distribution of $12,000, of which $2,000 is
after-tax contributions, and no part of the distribution is
directly rolled over. In this case, if you roll over $10,000
to an IRA that is not a Roth IRA in a 60-day 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 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 if not rolled
over.

If you miss the 60-day rollover deadline
Generally, the 60-day rollover deadline cannot 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. Under certain circumstances, you may claim
eligibility for a waiver of the 60-day rollover deadline by
making a written self-certification. Otherwise, to apply for
a waiver from the IRS, 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-A, Contributions to
Individual Retirement Arrangements (IRAs).

If you have an outstanding loan that is being offset
If you have an outstanding loan from the Plan, your Plan
benefit may be offset by the outstanding amount of the
loan, typically when your employment ends. The offset
amount is treated as a distribution to you at the time of
the offset. Generally, you may roll over all or any portion
of the offset amount. Any offset amount that is not rolled
over will be taxed (including the 10% additional income
tax on early distributions, unless an exception
applies). You may roll over offset amounts to an IRA or an
employer plan (if the terms of the employer plan permit
the plan to receive plan loan offset rollovers).
How long you have to complete the rollover depends
on what kind of plan loan offset you have. If you have
a qualified plan loan offset, you will have until your tax
return due date (including extensions) for the tax year
during which the offset occurs to complete your rollover.
A qualified plan loan offset occurs when a plan loan
in good standing is offset because your employer plan
terminates, or because you sever from employment. If
your plan loan offset occurs for any other reason, then you
have 60 days from the date the offset occurs to complete
your rollover.

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.

If your payment is from a governmental section
457(b) plan
If the Plan is a governmental section 457(b) plan, the same
rules described elsewhere in this notice generally apply,
allowing you to roll over the payment to an IRA or an
employer plan that accepts rollovers. One difference is
that, if you do not do a rollover, you will not have to pay
the 10% additional income tax on early distributions from
the Plan even if you are under age 59½. However, if you
do a rollover to an IRA or to an employer plan that is not
a governmental section 457(b) plan, a later distribution
made before age 59½ will be subject to the 10% additional
income tax on early distributions (unless an exception
applies). Other differences include that you cannot do
a rollover if the payment is due to an “unforeseeable
emergency” and the special rules under “If you were born
on or before January 1, 1936” do not apply.

If you are an eligible retired public safety officer and
your payment is used to pay for health coverage or
qualified long-term care insurance
If the Plan is a governmental plan, you retired as a
public safety officer, 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.

If you roll over your payment to a Roth IRA
If you roll over a payment from the Plan 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. However, the 10% additional 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 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-A, Contributions to Individual Retirement Arrangements (IRAs), and IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).

If you are not a Plan participant
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 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.

If you are a surviving spouse. If you receive a payment from the Plan 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.

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 Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½.

If you are a surviving beneficiary other than a spouse.
If you receive a payment from the Plan 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.

Payments under a domestic relations order. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a domestic relations order (DRO), you generally have the same options and the same tax treatment that 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). However, payments under the DRO will not be subject to the 10% additional income tax on early distributions.

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 Plan 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 a payment is one in a series of payments for less than 10 years, 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 (not including payments from a designated Roth account in the Plan), the Plan is not required to allow you to do a direct rollover and is not required to withhold federal income taxes. However, you may do a 60-day rollover.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information on special rollover rights related to the U.S. Armed Forces, see IRS Publication 3, Armed Forces’ Tax Guide. You also may have special rollover rights if you were affected by a federally declared disaster (or similar event), or if you received a distribution on account of a disaster. For more information on special rollover rights related to disaster relief, see the IRS website at www.irs.gov.

FOR MORE INFORMATION
You may wish to consult with the Plan administrator or payor, or a professional tax advisor, before taking a payment from the 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-A, Contributions to Individual Retirement Arrangements (IRAs); IRS Publication 590-B, Distributions from 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.