

MSU Retirement Plan Withdrawal Information- Distributions, Rollovers, Exchanges & QDRO's

Distributions and/or rollovers are allowed from the MSU 403(b) Plan and the 457(b) Deferred Compensation Plan ***on or after retirement, termination or resignation***, regardless of age or length of MSU employment. Distributions are subject to restrictions imposed by your investment sponsor. You are **not** required to take a distribution or do a rollover following separation from MSU employment. Investments may be maintained until you are ready to receive income. The 403(b) Plan and the 457(b) Deferred Compensation Plan are subject to Minimum Distributions Requirements as defined by the Internal Revenue Service. Employees should always notify their investment sponsor of any address changes.

The following information is provided as a general summary. You should consult with a professional tax advisor *before* you take a distribution from any of your plans, for tax information relative to your situation. You can find specific information on the tax treatment of retirement plans in IRS Publication 575, *Pension and Annuity Income*, and IRS Publication 590, *Individual Retirement Arrangements (IRAs)*. These publications are available from the Internal Revenue Service at their website www.irs.gov or by calling 800-829-3676.

Receiving Income

Contact your investment sponsor or local agent for information on available amounts, options, and withdrawal forms. Investment sponsors offer a variety of ways to receive income. Income is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Mandatory withholding – If any portion of the payment to you is an “eligible rollover distribution,” the plan is required by law to withhold 20% of that amount. This amount is sent to the IRS as federal income tax withholding. State and local taxes generally are not withheld.

For example, if your eligible rollover distribution is \$10,000, only \$8,000 will be paid to you because the plan must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, you will report the full \$10,000 as a payment from the plan. You will report \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

Voluntary withholding – If any portion of your payment is *not eligible* for rollover but is taxable, the mandatory withholding rule described above does not apply. You may elect not to have withholding apply to the “non-eligible rollover distribution” portion. Examples of some payments that are not eligible for rollover include hardship or unforeseeable emergency withdrawals, non-taxable payments, payments spread over a life expectancy or more than 10 years, loan defaults, or minimum distribution payments.

Additional 10% federal tax penalty on 403(b) plans if you are under age 59½ - If you receive a payment before you reach age 59½ and you do not roll it over, then, in addition to regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax does not apply to your payment if it is:

- Paid to you because you separated from service with your employer during or after the year you reached age 55.
- Paid because you retire due to disability.
- Paid to you as equal (or almost equal) payments over your life or life expectancy (or you and your beneficiaries' lives or life expectancies).
- Used to pay certain medical expenses.

See IRS publication 5329 for more information on the additional 10% tax.

Rollovers

Rollover is the process of moving your funds to another employer plan or an IRA. The MSU retirement plans do allow for direct rollovers *into* the plans from other employer sponsored plans. You must experience a qualifying event to be eligible for a rollover *out* of the MSU plans. For the 403(b) Plan a qualifying event includes separation of service, attainment of age 59 ½ years, or disability. For the 457(b) Plan the qualifying event is separation of service. Payments must be deemed an “eligible rollover distributions.” Your investment sponsor should be able to tell you what portion of your payment is an eligible rollover distribution. If you are employed by a new employer that has a plan and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. If your new employer’s plan does not accept a rollover, you can choose a direct rollover to an IRA. Your investment sponsor can provide detailed information regarding rollovers.

Direct Rollover - You can choose a direct rollover of all or any portion of your payment that is an “eligible rollover distribution.” In a direct rollover, the eligible rollover distribution is **paid directly** from a plan to an IRA or another employer plan that accepts rollovers. If you choose a direct rollover, no income tax will be withheld and you are not taxed on a payment until you take it out of the IRA or the employer plan at a later date.

Sixty-day Rollover – You can choose to have any or all of your payment amount **paid to you**. You can then roll over all or any portion of the payment by contributing it to your IRA or to another employer plan that accepts your rollover within 60 days of receiving the payment. Your payment will be taxed in the current year unless you roll it over. The amount rolled over will not be taxed until you take it out of the IRA or employer plan.

You may roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% mandatory withholding. If you choose to rollover 100%, you must find other money within the 60-day period to contribute to the IRA or the employer plan to replace the 20% that was withheld. On the other hand, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

For example, your eligible rollover distribution is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to an IRA or employer plan. To do this, you roll over the \$8,000 you received from the plan, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000 is not taxed until you take it out of the IRA or employer plan. If you roll over the entire \$10,000, you may get a refund of the \$2,000 withheld when you file your income tax return.

Note: Any funds rolled over from a 457(b) plan to a non-457(b) plan will lose their 457(b) tax status and may be subject to a 10% early withdrawal penalty, to the extent funds are withdrawn prior to age 59 ½ (see exception listed previously). Any funds rolled over from a non-457(b) to a 457(b) plan must be separately accounted for; otherwise the 457(b) accumulations may be subject to the 10% early withdrawal penalty.

The following types of payments *cannot* be rolled over:

Non-taxable payments – In general, only the “taxable portion” of your payment is an eligible rollover distribution. If you made “after-tax” employee contributions to the 403(b) plan, these contributions will be non-taxable when they are paid to you, and they cannot be rolled over.

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 (or your life expectancy), or
- Your lifetime and your beneficiary’s lifetime (or life expectancies), or
- A period of ten or more years

Required minimum distribution payments – Beginning in the year after you reach age 70 1/2, a certain portion of your payment cannot be rolled over because it is a “required minimum distribution” that must be paid to you.

Loans treated as distributions – The amount of a plan loan that becomes a taxable distribution because of a default cannot be rolled over.

In-Service Distributions

Distributions of **403(b)** retirement funds for **active** employees are also permitted under the following situations:

- Attainment of age 59½
- Disability (qualified for Social Security Disability Insurance payments)
- Death

Distribution of **457(b)** deferred compensation funds for **active** employees are also permitted under the following situations:

- Unforeseeable emergency – which includes funds for a severe financial hardship resulting from a sudden or unexpected illness or accident; loss of property due to casualty; or extraordinary or unforeseeable circumstances arising from events beyond your control. The following additional guidelines also apply to Unforeseeable emergency withdrawals:
 - The amount requested is necessary to meet the immediate and heavy financial need.
 - The amount is not eligible for reimbursement or compensation by insurance or other reimbursement plan.
 - The amount is not available through reasonable liquidation of assets.
- Attainment of age 70 ½
- Death

Employees should consult with a personal tax advisor to assess the tax consequences and IRS guidelines *before* taking a distribution.

Fund distributions are subject to IRS guidelines and may also be limited by restrictions imposed by your investment sponsor. ***The full accumulation of your account may not be available.*** Contact your investment sponsor for assistance in determining the amount available for withdrawal and to obtain required withdrawal forms.

Loans

MSU does allow loans from the 403(b) Plan. Please check the Human Resources website at www.hr.msu.edu (selecting Retirement) for detailed information concerning the 403(b) loan process. A 403(b) Retirement Plan Loan Application form, with documentation, will be necessary prior to MSU processing any 403(b) loans. For assistance, you may contact HR Benefits Retirement at 517-353-4434 ext. 3.

MSU does allow loans from the 457(b) plan. Please check directly with the investment sponsor you selected regarding availability, payment schedules, interest rates and criteria.

Employees who default on a loan will not be eligible to request another loan under the MSU plan.

Exchanges within the Plan

An exchange is a transfer of any part of your Plan assets, from one approved Plan investment sponsor to another. Exchanges do not require a qualifying event and may be requested at any time. Exchanges are not allowed to investment sponsors that are not approved by the Plan. Refer to www.hr.msu.edu (selecting Retirement) to find a list of approved investment sponsors. Contact the appropriate investment sponsor to obtain forms or request an exchange.

Alternate Payees (QDRO's), Surviving Spouses and Other Beneficiaries

In general, the rules previously summarized that apply to payments to employees also apply to surviving spouses of employees and to spouses or former spouses who are “alternate payees.” *You are an alternate payee if your interest in the benefits results from a QDRO (Qualified Domestic Relations Order: An order issued by a court, usually in connection with a divorce or legal separation).* Some of the rules summarized previously also apply to a deceased employee’s beneficiary who is a spouse. Employees with questions regarding QDRO structure and sample language should contact their Investment Sponsor for more details.

However, there are some exceptions for payments to surviving spouses, alternate payees, and other beneficiaries that should be mentioned.

- If you are a surviving spouse or alternate payee, you have the same choices as the employee. Thus, you can have the payment paid as a direct rollover or paid to you. If you have it paid to you, you can keep it or roll it over yourself to an IRA or to another employer plan that accepts rollovers.
- If you are a beneficiary other than the surviving spouse or alternative payee, you cannot choose a direct rollover, and you cannot roll over the payment yourself.
- If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10% tax described, even if you are younger than 59½.

Issues to Consider Regarding the 403(b) Plan

Before you take a distribution from your 403(b) account, you may want to consider the following:

- Retirement distributions may be subject to taxation by the State of Michigan. You may want to consult a tax professional for advice prior to taking a distribution. For information regarding State of Michigan income taxes, please refer to the [State of Michigan Department of Treasury](http://www.michigan.gov/treasury) website. All MSU retirement plans are subject to Minimum Distribution requirements.
- MSU’s 403(b) Plan is a non-qualified retirement plan, you are not eligible for capital-gain or forward averaging-treatment on your distribution.
- The amount that is subject to minimum distribution may be severely impacted should you elect rollover treatment of your accumulations, since 403(b) contributions made prior to 1987 have a grandfathered exclusion from Minimum Distribution Requirements at age 70½. The IRS expects you to begin receiving income from your grandfathered amounts (pre-1987 contributions) once you reach age 75. The 403(b) amount that is subject to minimum distribution may be severely impacted should you elect rollover treatment of your accumulations, since contributions made prior to 1987 lose their grandfathered exclusion from Minimum Distribution Requirements. *If rolled over to another 403(b) or 403(b)(7) account, you should request that the new investment sponsor track the rollover proceeds by contribution date, as reported by the initial investment sponsor.* By doing so, pre-1987 contributions retain their favorable minimum distribution treatment.
- If distributions are reinvested, there may be potential fees added on to the investment. Employees should inquire as to the type of fees that may apply. Fees may include annual custodial fees, front and back-end loads (i.e. sales commission on mutual funds), transfer fees, transaction fees, and annuity payout fees.