DRS

Withdrawal of Retirement Contributions

As a member of one of the following Washington State retirement systems, you are entitled to withdraw or transfer your employee contributions plus interest if you leave employment. These systems are characterized by the Internal Revenue Service (IRS) as 401(a) defined benefit plans:

- Public Employees' Retirement System (PERS) Plan 1 and 2
- Teachers' Retirement System (TRS) Plan 1 and 2
- School Employees' Retirement System (SERS) Plan 2
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 and 2
- Public Safety Employees' Retirement System (PSERS) Plan 2
- Washington State Patrol Retirement System (WSPRS) Plan 1 and 2

This publication is not intended for PERS Plan 3, TRS Plan 3 or SERS Plan 3 members. For information about withdrawing contributions from these plans, you may call ICMA-RC at 888-711-8773 and request a copy of the *Plan 3 Request for Payment of Defined Contribution Funds* packet. You may also get a copy on the ICMA-RC website at *www.icmarc.org/plan3*.

When can I withdraw or roll over my contributions?

You can withdraw or roll over your employee contributions plus interest only if you are separated from system-covered employment.

You can withdraw only the employee contributions plus interest. Employer and state contributions remain in the trust fund and are not refundable to the member. **If you choose to withdraw or roll over your employee contributions plus interest, you cancel all rights in your system and lose the service credit you have earned toward a retirement benefit.**

If I leave my job, what can I do with my contributions?

Option 1: Leave your contributions in the plan

You are not required to withdraw your contributions when you leave. The Department of Retirement Systems (DRS) will continue to pay interest until you either withdraw the funds or retire from the system. Regardless of a member's employment status, DRS pays 5.5 percent annual interest (this is the current rate as of the printing of this packet) compounded quarterly on employee contributions that remain in the retirement fund. There is no guarantee that this rate will not change. If you return to a job covered by a DRS-administered system and you left your contributions intact, your previous service credit will be combined with your new service credit to qualify for retirement.

Option 2: Withdraw your money

You are entitled to withdraw your employee contributions plus interest any time you leave employment covered by the DRS-administered systems. If you withdraw your money, IRS rules require a withholding tax of 20 percent of all tax-deferred funds.

DRS
WASHINGTON STATE
Department of Retirement Systems

If you are under age 59½, the IRS may levy an additional 10 percent tax for early withdrawal on the tax-deferred portion of the withdrawal. A withdrawal is treated like earnings for the year in which you receive payment. DRS will mail you a Form 1099-R for your tax filing purposes. See pages 3-6 for more information about federal tax obligations.

Option 3: Roll over all your money to an IRA or eligible retirement plan

You may request to roll over your employee contributions plus interest to an eligible account that accepts rollovers. If you do this, no withholding is required on the tax-deferred funds that are directly transferred, nor does the 10 percent tax apply.

Option 4: Roll over a portion of your money to an IRA or eligible retirement plan

You can request that DRS roll over a specific portion of your employee contributions plus interest to an eligible retirement plan that accepts rollovers and have the remainder paid directly to you as described in Option 2.

Can I be denied a withdrawal or be required to return my withdrawal?

In certain cases, you may be ineligible for a withdrawal or be required to repay your withdrawn contributions. Statutes and requirements vary among the systems. You may not withdraw contributions from any DRS-administered system while working in a covered position or while on a leave of absence from a covered position. To be eligible to withdraw contributions, you must be separated from covered employment. A summary of the rules from each system follows:

PERS Plan 1 and 2, TRS Plan 1 and 2, SERS Plan 2, LEOFF Plan 2 and PSERS Plan 2

A member is not eligible for a withdrawal if he or she enters into eligible employment with an employer covered by the same system before receiving the withdrawn money.

LEOFF Plan 1

There are no requirements to repay a withdrawal if you become re-employed.

WSPRS Plan 1 and 2

You may not withdraw while on disability status with the State Patrol. There are no requirements to repay a withdrawal if you become re-employed.

Some things to consider before withdrawing

- You may be able to use special tax rules, such as those described in this booklet, to reduce the tax you owe.
- When you withdraw your funds, you lose your service credit. For vested members of all systems, this means forfeiting a monthly benefit at retirement age.
- The IRS requires a 30-day waiting period before your funds are distributed to make sure you have reviewed the options described in this booklet. You have the right to waive the 30-day requirement by indicating your choice on the attached form.
- Withdrawing your funds is voluntary. You don't have to withdraw just because you leave an eligible position or terminate employment. If you choose to keep your money in your account, it will continue to earn interest.
- Withdrawing your contributions may carry a substantial tax liability. Be sure to read this booklet before submitting the attached refund form.
- Only tax-deferred contributions and interest are subject to the 20 percent withholding tax. If you work for a DRS-covered employer that does not defer tax on contributions, only the interest in your account is subject to the withholding requirements described here.

- Each retirement system has disability coverage. If you terminated employment because of illness or disability, contact DRS before withdrawing your contributions.
- Your account may include both after-tax and tax-deferred contributions. Interest in your account is tax-deferred. If you choose to transfer or roll over any after-tax contributions to an IRA or eligible retirement plan, the accepting entity must agree to accept the after-tax dollars and track the after-tax and tax-deferred dollars separately.
- You may wish to consult with a professional tax advisor before withdrawing your contributions.

DEFINITIONS

Transfer/Rollover: A payment of your withdrawal to an IRA, or to another eligible retirement plan that accepts rollovers.

Individual Retirement Account (IRA): Includes individual retirement accounts or individual retirement annuities. IRA can be classified as either traditional or Roth.

Tax-deferred contributions: Contributions deducted from your paycheck before income is reported for tax purposes. Payment of taxes is deferred until you receive the money.

After-tax contributions: Contributions deducted from your paycheck after income is reported for tax purposes. Taxes are paid in the year the income is paid.

A guide to withholding on withdrawals

DRS staff are not authorized to give tax advice. Please consult your tax advisor or the IRS pamphlets listed on page 6 of this booklet before deciding how to take payment of your tax-deferred funds.

Federal law requires DRS to withhold 20 percent on the tax-deferred portion of withdrawal payments unless you request that DRS transfer the funds directly to another eligible retirement plan.

Required payments after age 70½

Beginning in the year you reach 70½, the IRS requires that you begin receiving a certain portion of your benefit. This portion of your benefit cannot be rolled over, and is not subject to the mandatory withholding.

Payments you can roll over

You can choose a direct rollover of all or any portion of your payment. In a direct rollover, the distribution is transferred directly from DRS to an IRA or another eligible retirement plan that accepts rollovers. If you choose a direct rollover, except for a Roth IRA, you are not taxed on a payment of tax-deferred dollars until you later take it out of the traditional IRA or the eligible retirement plan. If your rollover contains after-tax dollars, the IRS requires that they are tracked separately within your account. You are not taxed on after-tax dollars when you take them out of the traditional IRA or the eligible retirement plan.

Direct rollover to an IRA

You can open a traditional or Roth IRA to receive the direct rollover. If you choose to have your payment made directly to an IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to an IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish an IRA to receive the payment. When selecting an IRA, you may wish to consider whether the IRA you choose will allow you to move all or a part of your payment to another IRA at a later date without penalties or other limitations.

Payments made from a plan cannot be rolled over to a Simple IRA or a Coverdell Education Savings Account.

Once you roll over your after-tax contributions to an IRA, those amounts cannot later be rolled over to an eligible plan.

You can choose a direct rollover to a Roth IRA subject to the same limits that apply to rollovers from a traditional IRA to a Roth IRA. A direct rollover of your distribution to a Roth IRA avoids the 10 percent tax on early distributions received before the date you reach age 59½, become disabled, or retire under the terms of the plan. You should consult your tax advisor if you are interested in rolling over your distribution to a Roth IRA.

For more information on IRAs (including limits on how often you can roll over between IRAs), see IRS publication 590, *Individual Retirement Arrangements*, available at *www.irs.gov*.

Direct rollover to a retirement plan

If you are employed by a new employer that has an eligible retirement plan, and you want to make a direct rollover to that plan, ask the administrator of that plan if it will accept your rollover. An eligible retirement plan is not legally required to accept a rollover. If your new employer's plan does not accept a rollover, you can choose a direct rollover to an IRA.

Payments made to a member

If you have the payment made to you, the portion that consists of tax-deferred contributions and interest is subject to 20 percent income tax withholding.

The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a traditional IRA or another plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Mandatory withholding

DRS is required by law to withhold 20 percent income tax from all tax-deferred contributions and interest paid directly to you.

EXAMPLE

If you withdraw $10,000 of tax-deferred dollars, only $8,000 will be paid to you because DRS 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 DRS. You will report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

Sixty-day rollover option

You can still decide to roll over all or part of the tax-deferred dollars to an IRA or another eligible retirement plan that accepts rollovers, if you have withdrawn funds paid to you. If you decide to roll over your funds, **you must make the rollover within 60 days of the date the check was issued.** Unless you roll over your distribution to a Roth IRA, the portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible retirement plan. If you roll over to a Roth IRA, the distribution will be included in your taxable income for the year in which it was paid to you.

You can roll over up to 100 percent of the withdrawn tax-deferred dollars, including an amount equal to the 20 percent that was withheld. If you choose to roll over 100 percent, you must find other money within the 60-day period to contribute to the IRA or the eligible retirement plan to replace the 20 percent that was withheld. On the other hand, if you roll over only the 80 percent that you received, you will be taxed on the 20 percent that was withheld.

EXAMPLE

You withdraw $10,000 of tax-deferred dollars 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 a traditional IRA or eligible retirement plan. To do this, you roll over the $8,000 you received from DRS, 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 traditional IRA or eligible retirement plan. If you roll over the entire $10,000 when you file your income tax return, you may get a refund of the $2,000 withheld.

If, on the other hand, you roll over only $8,000, the $2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the $2,000 withheld (however, any refund is likely to be larger if you roll over the entire $10,000).

Additional 10 percent early withdrawal penalty 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 the regular income tax, you may have to pay an extra tax equal to 10 percent of the tax-deferred portion of the payment. The additional 10 percent early withdrawal penalty on tax-deferred contributions does not apply if you:

1. Separate from service with your employer during or after the year you reach age 55;
2. Qualify as a public safety employee and separate from service with your employer during or after the year you reach age 50;
3. Retire due to a disability;
4. Receive the payment as equal or almost equal payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies); or
5. Use the payment to pay certain medical expenses.

See IRS Form 5329 for more information on the additional 10 percent tax.

Special tax treatment

If your withdrawn tax-deferred dollars are not rolled over, they will be taxed in the year you receive them. However, if they qualify as a lump sum distribution, they may be eligible for special tax treatment. A lump sum distribution is a payment, within one year, of your entire balance under your retirement plan that is payable to you because you have reached age 59½ or have separated from service with your employer. For a payment to qualify as a lump sum distribution, you must have been a participant in a DRS-administered retirement system for at least five years. The special tax treatment for lump sum distributions is described below.

Ten-year averaging

If you receive a lump sum distribution **and you were born before January 2, 1936**, you can make a one-time election to figure the tax on the payment with ten-year averaging (using 1986 tax rates). Ten-year averaging often reduces the tax you owe.

Capital gain treatment

In addition, if you receive a lump sum distribution and you were born before January 2, 1936, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the retirement system (if any) taxed as long-term capital gain at a rate of 20 percent.

There are other limits on the special tax treatment for lump sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, including any previously used five year averaging, and the election applies to all lump sum distributions that you receive in that same year. If you have previously rolled over a payment from a DRS-administered plan (or other similar plans of your employer), you cannot use this special tax treatment for later payments from any of these plans. If you roll over your payment to an IRA, you will not be able to use this special tax treatment for later payments from the IRA. Also, if you roll over only a portion of your payment to an IRA, this special tax treatment is not available for the rest of the payment. Additional restrictions are described in IRS Form 4972, which has more information on lump sum distributions and how you elect the special tax treatment.

How to get additional information about federal taxes

Only the federal (not state or local) tax rules that might apply to your payment are described here. The rules are complex and contain many conditions and exceptions that are not included in this publication.

Consult with a professional tax advisor before you withdraw funds from your retirement account.

You can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, *Pension and Annuity Income*, and IRS Publication 590, *Individual Retirement Arrangements*. These publications are available on the IRS website at *www.irs.gov*, or by calling 1-800-TAX-FORMS.

If you return to public service, you may be able to recover your withdrawn service credit

Withdrawal of your retirement contributions cancels the service credit earned during the period the contributions were made. If you return to public service in Washington State, you may be able to recover that service credit. The methods for recovery, including statutory deadlines for each system, are summarized on page 8.

This document constitutes legal notification of your rights for recovery of service credit. By signing the form attached to this booklet, you acknowledge receipt of this information. If you require more information, it is your responsibility to contact DRS. For more detailed information, read the DRS publication, *Recovery of Withdrawn or Optional Service Credit* available on the DRS website at *www.drs.wa.gov*.

If you wish to receive an estimate of cost for restoration or purchase of service credit, write to:

Department of Retirement Systems
PO Box 48380
Olympia WA 98504-8380

If you request information that requires data specific to your account, be sure to include the last four digits of your Social Security number in any correspondence.

Three methods for recovering your service credit

- **Restoration:** You return to the same system from which you withdrew your contributions and repay the withdrawn contributions plus interest within a specific period of time after returning to the retirement system. The payment deadline varies among the different systems.
- **Dual member restoration:** You become a member of a DRS-administered retirement system other than the one you withdrew from, or were previously a member of the Statewide City Employees' Retirement System (SCERS), and repay contributions you withdrew plus interest from the first system. Both systems must be dual member systems. If you would like to learn more about the advantages of dual membership, you may get a copy of the DRS brochure, *What Is Dual Membership and How Does It Affect Me?* on the DRS website.
- **Service credit purchase:** If deadlines for restoration or dual member restoration pass before restoration is completed, you have the option to purchase withdrawn service credit up until you retire.

Service credit purchase

You can purchase withdrawn service credit even after deadlines for normal or dual member restoration have passed. Service credit purchased under this law costs much more than service credit restored within the statutory deadlines. The cost is based on the increased value of your retirement benefit not the amount of contributions that were withdrawn.

You may purchase service credit in increments as small as one month. You are not limited to a single purchase, and may purchase credit until retirement.

Rollovers and transfers as a method of payment

You may roll over or transfer contributions from the following funds to pay a service credit recovery bill: 457, 401(a) or (k), a traditional IRA, or 403(a) or (b). You cannot roll over or transfer more than what it costs to buy service credit. If the rollover or transfer does not pay the service credit bill in full, the difference must be made up using another source of funds (such as cash).

You will need a *Rollover Authorization into the Department of Retirement Systems* form. Call DRS to have a copy mailed to you.

Processing your request

- Return completed, notarized form to DRS at the address listed in the next column.
- Applications that are incomplete or not notarized will be returned.
- The IRS requires DRS to verify your Tax Identification Number before distributing funds. Please complete the W-9 form and return it to DRS along with your *Request for Refund of Retirement Contributions*.
- **Processing takes 60 to 90 days from the date of termination of employment**. Your request cannot be completed until your employer submits separation information to DRS.

Contacting DRS

More information is available on the DRS website or by contacting DRS directly. Office hours are 8 a.m. to 5 p.m., Monday through Friday, except legal holidays.

Website:	*www.drs.wa.gov*
Phone:	800.547.6657, or 360.664.7000 in the Olympia area
TTY:	866.377.8895, or 360.586.5450 in the Olympia area
Email:	recep@drs.wa.gov
Address:	Department of Retirement Systems, PO Box 48380, Olympia, WA 98504-8380

January 2013

Summary Description

The rules governing withdrawal of retirement funds are contained in state retirement law and federal laws and rules. This publication is a summary, written in non-legal terms. It is not a complete description of the law. If there are any conflicts between what is written in this publication, and what is contained in the law, the applicable law will govern. For financial advice, you should consult a qualified financial advisor or the IRS.

Restoration deadlines

If you pay in installments, the payments must be complete by the deadline or your restoration is cancelled. Though considerably more expensive, service credit may be purchased after the deadline. See "Service credit purchase" on page 7.

If you withdrew from	Plan	Restoration deadline
Public Employees' Retirement System (PERS)	1	60 service credit months after returning to service. You can make payments only if you are actively employed in a PERS position.
	2	Five years after returning to service.
Teachers' Retirement System (TRS)	1	Lump sum payment, or 20 percent of the total due must be paid by June 30 of the fifth school year after you return to membership. If paying in installments, final payment must be made by June 30 of the fourth school year following the school year the first payment was made or restoration is cancelled.
	2	Five years after returning to service.
School Employees' Retirement System (SERS)	2	Five years after returning to service.
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)	1	60 service credit months after returning to service or before retirement, whichever comes first.
	2	Five years after returning to service or before retirement, whichever comes first.
Public Safety Employees' Retirement System (PSERS)	2	Five years after returning to service.
Washington State Patrol Retirement System (WSPRS)	1 2	Must return to service within 10 years of separation, and payments must be completed within five calendar years of returning to service or before retirement, whichever comes first.

Dual member restoration deadline

Though considerably more expensive, service credit may be purchased after the deadline. See "Service credit purchase" on page 7.

If you withdraw from one of the retirement systems listed below and later became a member of a different system, you are a dual member and may restore contributions from the previous system. Dual members can combine the service credit earned in all dual member systems to qualify for retirement. Dual member retirees receive a separate benefit from each system they belong to.

Members transferring from PERS Plan 2 to PERS Plan 3, TRS Plan 2 to TRS Plan 3, SERS Plan 2 to SERS Plan 3 and PERS conversions to SERS are not considered dual members.

Dual member systems	Dual member restoration deadline
PERS Plan 1, 2 & 3 TRS Plan 1, 2 & 3 SERS Plan 2 & 3 LEOFF Plan 2 PSERS Plan 2 WSPRS Plan 1 & 2 Statewide Cities Employees' Retirement System (SCERS) City retirement systems for Seattle, Spokane and Tacoma	Members have 24 months to restore after establishing membership with another dual member system.

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REQUEST FOR REFUND OF RETIREMENT CONTRIBUTIONS

Post Office Box 48380 Olympia, WA 98504-8380
Toll Free: 1-800-547-6657 • Local: 360-664-7000 • TDD: 360-586-5450

Please select: ☐ PERS ☐ SERS ☐ TRS ☐ LEOFF ☐ WSPRS ☐ PSERS

SECTION A: Member Information – Please type or print with ink when completing this form

Name (Last, First, Middle)			Social Security Number
Mailing Address			
City	State	ZIP+4	Daytime Phone Number ( )
Employer Name		Date Employment Terminated	

SECTION B: Withdrawal Options – Select one

Check the applicable box: See "*A Guide to Withholding on Withdrawals*" on page 3 of the attached booklet. You may wish to consult with the IRS before making your selection.

☐ 1. Cash Withdrawal – I elect to withdraw and receive my accumulated contributions and interest. I understand there is a mandatory 20 percent withholding tax on all tax-deferred contributions and on all interest accumulated in the account.

☐ 2. Direct Rollover – 100 percent of Eligible Funds – I elect to transfer all of the accumulated tax-deferred contributions, interest and the after-tax contributions, if any, to the eligible retirement plan or IRA designated below.

☐ 3. Direct Rollover – Designated Portion of Eligible Funds – I elect to transfer $__________________ of the tax-deferred contributions and interest and/or $__________________ of the after-tax contributions to the eligible retirement plan or IRA designated below. Send the balance of tax-deferred funds, minus the 20 percent withholding tax, and any after-tax portion of my account directly to me.

SECTION C: Agreement to Accept Transfer/Rollover – Complete only if you selected option 2 or 3 in section B

If you elected to transfer or roll over any of your eligible funds, the accepting agent must complete and sign this section. DRS accounts are 401(a) accounts. The institution named below agrees to accept transfer of the tax-deferred and after-tax funds described in Section B on a trustee-to-trustee basis. It is the client's intention that this transfer shall not constitute actual or constructive receipt for income tax purposes.

Please check type(s) accepted: ☐ All Funds ☐ Tax-Deferred Funds Only

Please check the type of account: ☐ Traditional IRA ☐ Roth IRA ☐ Eligible Retirement Plan

Institution Name	Accepting Agent's Name (Please Print)		Phone Number ( )
Mailing Address			
City	State	ZIP	Account Number
Agent Signature			Date

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Detach here and mail to DRS at PO Box 48380, Olympia WA 98504-8380

SECTION D: Waiver of 30 Day Notice Period

The Internal Revenue Service requires that you be given 30 days to review the options described in this publication. You may waive this right by checking the box below. **If you do not waive the 30-day review, DRS must delay processing your payment for an additional 30 days from the date this form was notarized.**

☐ **I waive my right to 30 days for reviewing the withdrawal options.**

SECTION E: Signature & Withdrawal Acknowledgements – To be completed by the applicant and witnessed by a Notary Public

I have read this document and understand that by electing to withdraw or transfer my employee contributions plus interest. I cancel all rights to any future defined retirement benefits, including any survivor options (for an estimate of possible benefit, please contact DRS or visit us at www.drs.wa.gov).

I am not on a leave of absence. I have terminated all employment with any employer participating under the retirement systems associated with this refund request, and have no arrangements for employment with any system employer which would disqualify me for withdrawal.

I understand that this document constitutes legal notification of my rights for recovery of service credit should I return to DRS-covered employment.

Your signature on this document creates an irrevocable agreement between you and the Department of Retirement Systems. **We cannot process your request without a Notary Public signature and seal.**

Signature of Applicant	Date

State of ______________________ County of _____________________

Signed or attested before me on ________ ___________, __________
Day Month Year

Seal or Stamp

____
Name of Notary Public and Title

____
Notary Public Signature

____
My Appointment Expires

RETURN COMPLETED AND SIGNED FORM TO:
Department of Retirement Systems PO Box 48380, Olympia WA 98504-8380

Department of Retirement Systems (DRS) requires that you provide your Social Security number for this form.

- DRS will use your Social Security number as a reference number and to ensure that any funds disbursed under your account are correctly reported to the IRS.
- DRS will not disclose your Social Security number unless required by law.
- Internal Revenue Code Sections 6041(a) and 6109 allow DRS to request your Social Security number.