Public School Employees' Retirement System

Let's Talk About

Taxes on Your PSERS Benefits

Publication #9600 05/2020

The Public School Employees' Retirement System (PSERS) provides this document for educational and informational purposes. Information in this document is general in nature, does not cover all factual circumstances, and is not a complete statement of the law or administrative rules. The statements in this document are not binding. In any conflict between the statements in this document and applicable law or administrative rules, the law and administrative rules will prevail.

This document is designed solely to provide an overview of benefits available to PSERS members and is not intended to be a substitute for retirement counseling. If you are considering a disability retirement, you are encouraged to contact PSERS to meet with a PSERS Retirement Representative. The representative will guide you through the process to ensure timely filing of your application.

Table of Contents

This pamphlet provides a general description of the taxation methods in effect at the time of publication.

PSERS suggests you obtain Internal Revenue Service (IRS) Publication 575 Pension and Annuity Income (including Simplified General Rule) or Publication 939 General Rule for Pensions and Annuities for tax regulations specific to your date of retirement. IRS publications are available on the IRS website at *irs.gov* or by contacting the IRS at 800.829.3676.

PSERS cannot provide individual tax advice.

You may want to consider consulting a tax professional before you apply for retirement or distribution.

Understanding Your Contributions, Interest, & Earnings

Defined Benefit (DB) Contributions – DB contributions consist of pickup contributions, Pre-87 Investment in Contract, and Post-86 Investment in Contract.

> **Pickup Contributions** - Pickup Contributions are contributions deducted from your earnings after December 31, 1982, excluding payroll deductions for the payment of a debt. Pickup contributions are excluded from your gross income for federal tax purposes only and are federally tax-deferred. You pay federal taxes on these contributions when received as either a retirement benefit or a refund.
>
> **Pre-87 Investment in Contract** - Pre-87 Investment in Contract are contributions received by PSERS prior to January 1, 1983, and all purchase of service payments received by PSERS before January 1, 1987. You have already paid federal taxes on these contributions and will, therefore, not be taxed again when distributed.

Post-86 Investment in Contract - Post-86 Investment in Contract are all purchase of service and frozen annuity debt payments received by PSERS after December 31, 1986. You have already paid federal taxes on these contributions and will, therefore, not be taxed again when distributed.

Total Investment in Contract - Total Investment in Contract contributions includes both Pre-87 Investment in Contract and Post-86 Investment in Contract.

Interest - Interest applies to earnings on your DB contributions. By law, your DB contributions accrue interest at a rate of 4% compounded annually for active, inactive, and vested members. Please note that inactive non-vested members do not earn interest after termination.

Defined Contribution (DC) Contributions & Earnings – DC contributions consist of mandatory and voluntary contributions. Earnings (or losses) are based on the performance of the investment vehicles you select. Only Class T-G, Class T-H, and Class DC have a defined contribution component to their retirement plan.

Refunds

A refund is your only option if you terminate from all school service and you are not vested. You are eligible only for a refund if you meet one of the following criteria under your membership class.

*Class T-G and Class T-H members have a DC component to their retirement benefit. Please refer to the “Taxing Your DC Contribution” section for more information.

Visit *psers.pa.gov* for more information on the different types of PSERS retirement benefits and retirement qualifications.

DB Refund Paid Directly to You

PSERS must withhold a mandatory 20% federal withholding tax on pickup contributions and interest that are refunded. Your actual tax liability may be more or less than 20%, based on your total taxable income for the year in which you receive the payment. No tax will be withheld from any investment in contract contributions because taxes were previously paid on these contributions.

If you receive a refund from PSERS and later decide you want to roll over the money into an IRA or other eligible retirement plan, you have 60 days to do so. This is referred to as a non-direct rollover. (See "Rollover Information for Refunds and Retirements.") You cannot return the payment to PSERS to reissue to an IRA or other eligible retirement plan.

If you terminate employment prior to the tax year in which you reach age 55 and receive a refund before reaching age 59 1/2, you may be required to pay an additional 10% tax on early distribution to the IRS. You are responsible for paying the 10% tax on early distributions directly to the IRS. PSERS does not deduct the tax on early distribution from your lump-sum payment. (See IRS Form 5329.)

To avoid this additional tax, you may choose to roll over your refund to an IRA or other eligible retirement plan.

The Required Minimum Distribution (RMD) rules of the Internal Revenue Service (IRS) mandate that retirement benefits begin to be distributed by April 1 of the calendar year following the year in which a terminated vested member reaches their Required Beginning Age or when an active member terminates service after having attained their Required Beginning Age. The IRS defines the Required Beginning Age as 70 1/2 if a member was born on or before June 30, 1949, or age 72 if a member was born on or after July 1, 1949. **If you do not begin receiving your RMD, the IRS may impose a 50% penalty tax on the amount not distributed.**

Direct Rollover of a Refund

You may elect to have PSERS directly roll over your refund into an IRA or other eligible retirement plan. This would defer taxation of the refund until you withdraw the money from that account or plan.

Refunds & State Income Tax

If you reside in Pennsylvania, no portion of your refund is subject to Pennsylvania state or local income tax. If you reside in another state, you must check with your state and local authorities to determine your tax responsibility. PSERS cannot withhold state taxes from your refund payment.

Refunds & IRS *Form 1099-R*

The IRS *Form 1099-R* is used when preparing your annual federal income tax return. PSERS will automatically send your *Form 1099-R* by the end of January following the calendar year in which your refund was paid. Refer to “Tax Statement *Form 1099-R*” for more information.

Receiving a DB Retirement Benefit

If you elect to withdraw any portion of your contributions and interest at retirement, this type of withdrawal is classified as a partial lump-sum payment. The IRS considers this type of payment a non-periodic payment. Monthly retirement payments are considered periodic payments. Any retroactive retirement payment may be treated as either periodic or non-periodic based on the nature of the payment.

The IRS has various rules for taxing partial lump-sum payments and monthly retirement benefit payments.

Members receiving a disability retirement do not have the option of withdrawing contributions and interest at retirement.

The Required Minimum Distribution (RMD) rules of the Internal Revenue Service (IRS) mandate that retirement benefits begin to be distributed by April 1 of the calendar year following the year in which a terminated vested member reaches their Required Beginning Age or when an active member terminates service after having attained their Required Beginning Age. The IRS defines the Required Beginning Age as 70 1/2 if a member was born on or before June 30, 1949, or age 72 if a member was born on or after July 1, 1949. **If you do not begin receiving your RMD, the IRS may impose a 50% penalty tax on the amount not distributed.**

Special Rule for Partial Lump-Sum Payments

The federal Technical and Miscellaneous Revenue Act of 1988 allows a PSERS retiree to immediately exclude an amount up to the Pre-87 Investment in Contract from federal taxation.

To qualify you must either:

- Receive your Pre-87 Investment in Contract as a partial lump-sum payment at the time of your first retirement benefit payment.
- Directly roll over your Pre-87 Investment in Contract as a partial lump-sum payment at the time of your first retirement distribution to a plan that will accept rollovers of previously-taxed funds.

If you elect to receive or roll over an amount less than the total Pre-87 Investment in Contract with your first partial lump-sum payment, you will recover the remainder of your Investment in Contract over the life of your annuity using the IRS Simplified General Rule.

Post-86 Investment in Contract Recovery

If you elect to withdraw your Post-86 Investment in Contract, the amount is subject to the regular 20% federal tax withholding. You will recover the tax previously paid on your Post-86 Investment in Contract under the IRS Simplified General Rule.

The IRS Simplified General Rule

The application of the IRS Simplified General Rule results in a monthly tax exclusion based on the amount of your Investment in Contract and the expected number of monthly payments as established by the IRS.

This exclusion will remain constant until you have reached the expected number of monthly payments as established by the IRS.

The exclusion will be applied if you have Investment in Contract and either:

- Elect to receive only a monthly benefit.
- Have any Investment in Contract remaining in your PSERS account after you receive a partial lump-sum payment with your first annuity payment.

How it Works

The IRS Simplified General Rule determines the nontaxable and taxable amount of each monthly retirement check.

If you retired and selected the Maximum Option or Option 1:
The remaining Investment in Contract money is divided by the number of anticipated monthly payments the IRS projects you will receive over the lifetime of the annuity, based on your age at the time of retirement. After you have recovered the total amount of your Investment in Contract, any Subsequent monthly annuity payments are fully taxable.

If you retired and selected Options 2, 3, or the Special Option 4:
The remaining Investment in Contract money is divided by the number of anticipated monthly payments the IRS projects you will receive over the lifetime of the annuity, based on your age and your survivor annuitant's age at the time of retirement. After you have recovered the total amount of your Investment in Contract, any subsequent monthly annuity payments are fully taxable.

Rollover Information for Refunds and Retirements

Your lump-sum (refund) or partial lump-sum (retirement) is eligible to be rolled over into an “Eligible Retirement Plan.”

Eligible Retirement Plans

PSERS allows you to roll over your funds into the following eligible retirement plans:

- Traditional Individual Retirement Account (IRA)
- 403(b) tax sheltered annuity
- Governmental 457(b) deferred compensation program
- Simplified Employee Pension (SEP)
- Safe Harbor 401(K)
- Other qualified plan as described in Section 401(a) of the Internal Revenue Code

As the named account holder, you must be the primary beneficiary and/or sole owner of the eligible retirement plan.

Ways to Roll Over Your Funds

There are two ways to roll over your contributions and interest:

Direct Rollovers - You authorize PSERS to send the rollover directly to an IRA or other eligible retirement plan’s administrator by submitting one of the following:

- The *PSERS Authorization for Direct Rollover (Refund)* (PSRS-1243) form with the *Application for Refund*
- The *Authorization for Direct Rollover (Retirement)* (PSRS-1264) form with the *Application for Retirement*

PSERS will not roll over your money using a private company’s authorization form.

Non-Direct Rollovers - If you choose to have a lump-sum or partial lump-sum portion(s) paid to you, PSERS must withhold 20% federal withholding tax on the taxable portion of your payment. You have 60 days to rollover the funds to an IRA or other eligible retirement plan.

Under these circumstances, you would be responsible to complete the rollover with your financial institution. You cannot return the payment to PSERS to reissue to an IRA or other eligible retirement plan.

If you decide on a non-direct rollover, you will be rolling over 80% of your lump-sum or partial lump-sum payment. To roll over 100% of the taxable portion of your lump-sum or partial lump-sum payment, you will have to replace the money withheld for federal taxes. You may be able to recover your withheld taxes when you file your federal income tax return.

Your financial institution will provide you with the necessary forms to complete a non-direct rollover.

Rollovers - Age 70 1/2 - The IRS has special rules about rollovers and distributions when you reach age 70 1/2. PSERS may not be able to roll over 100% of your contributions and interest on your behalf. You must begin to receive a minimum amount from your IRA or other eligible retirement plan by April 1st following the tax year in which you attain age 70 1/2. For more information, refer to the IRS Publication 575 Pension and Annuity Income found on the IRS website at *irs.gov* or by contacting the IRS at 800.829.3676.

Rolling Over Your Monthly Benefit - **IRS regulations do not permit you to roll over your monthly retirement benefits.** You may only roll over contributions and interest (partial lump-sum payments).

Retirement Before Age 55

Tax on Early Distributions

The IRS imposes an additional 10% tax on early distributions. The tax on early distributions is on the taxable portion of any lump-sum payment(s). You are subject to this tax if you are under age 55 in the year that you terminate service and choose to receive any partial lump-sum payment(s) before reaching age 59 1/2.

PSERS does not deduct the tax on an early distribution from your partial lump-sum payment. You are responsible for paying the 10% tax on early distributions directly to the IRS. (See IRS Form 5329.)

Tax Exemption on Early Distributions

You are not subject to the tax on early distributions if one of the following applies:

- You roll over your contributions and interest into an eligible retirement plan
- You retire and choose to receive an amount not to exceed your Pre-87 Investment in Contract in a single partial lump-sum disbursement at the time of first payment.

Retirement On or After Age 55

If you are at least age 55 in the year you retire, the tax on early distributions does not apply to you.

Retirement at Age 75 or Older

Special taxation rules apply if you terminate employment and retire at age 75 or older. Refer to IRS Publication 575 Pension and Annuity Income and Publication 939 *General Rule for Pensions and Annuities* for specific information for members retiring at age 75 or older.

Disability Retirement
If you retire under a PSERS disability retirement benefit, your monthly retirement benefits are taxed the same as regular monthly retirement benefits.

Disability and Pre-87 Investment in Contract Contributions
Disability retirement does not allow for the withdrawal of member contributions and interest in a partial lump-sum payment. Any Pre-87 Investment in Contract contributions a disability retiree may have in PSERS would have the IRS Simplified General Rule method applied to the taxable rate of the monthly retirement benefit.

Taxing Your DB Monthly Retirement Benefit
Federal Taxes - Your PSERS monthly retirement benefit is subject to federal taxes. Refer to "Electing the Amount of Federal Withholding from Your DB Monthly Retirement Benefit" below for information on how to deduct federal taxes from your monthly retirement benefit.

Pennsylvania State & Local Taxes - Monthly retirement benefit payments from PSERS are exempt from Pennsylvania state and local taxes.

Other States' Taxes - If you reside in another state, you must check with your state and local authorities to determine the taxability of payments made to you outside of Pennsylvania. If the state where you reside taxes your benefit, you must pay your taxes directly to that state's taxing authority. PSERS cannot withhold state taxes from your monthly retirement benefit.

Electing the Amount of Federal Withholding from Your DB Monthly Retirement Benefit

Electing Tax Withholding

At the time you complete your *Application for Retirement*, you will have the opportunity to elect your tax withholding. You must indicate your marital status and the number of allowances. You may ask for an amount to be withheld in addition to the marital status/ exemption amount.

Electing Not to Withhold Taxes

You may elect to have no taxes withheld from your monthly check, but this does not release you from your tax liability. The IRS may require you to make quarterly estimated tax payments to avoid an IRS-imposed penalty.

Failure to Provide Tax Withholding Information

As required by the IRS, PSERS withholds federal income taxes from your monthly retirement benefit based on the IRS Tax Tables using “Married with three (3) allowances” if you do not complete the **Federal Income Tax** section of the PSERS *Application for Retirement*.

Changing Your Withholding

You may change your federal withholding amount at any time through the Member Self-Service (MSS) Portal. Alternatively, you can submit a *Form W-4P Federal Tax Withholding Certificate for Annuity Payments* (PSRS-996) to PSERS. This form is available on the PSERS website under “Forms” or by contacting PSERS. You may also submit an Internal Revenue Service (IRS) Form W-4P.

When you change your federal withholding amount with PSERS, your new selection supersedes any previous tax-withholding request you made. Please keep this in mind, especially if you are requesting the withholding of an additional dollar amount.

Example:
You had previously elected "Married with zero (0) allowances," which on its own withheld $125. You requested an additional amount of $25 be withheld in addition to the $125 for a total of $150 per month federal withholding.

Later, you decide you need an additional $50 withheld per month in addition to the $150 already being withheld. You want your total withholding to be $200. When you complete the new Form W-4P, you must complete it as though you had never previously asked for an additional amount. You would complete the form with "Married with 0 allowances" ($125) plus an additional withholding of $75 for a total of $200.

A monthly Federal Tax Withholding Calculator is available on the MSS Portal and on the PSERS website to help you estimate how much federal tax will be withheld from your gross monthly retirement benefit.

Tax Statement Form 1099-R

Purpose of the IRS *Form 1099-R*

The IRS *Form 1099-R* is sent each January to document the benefits received in the previous calendar year. It provides a breakdown of the following information: gross distribution, taxable amount, federal income tax withheld, and Investment in Contract recovered during the year, if any. Use it when preparing your annual federal income tax return.

You may receive more than one IRS *Form 1099-R* for the tax year depending on the applicable distribution code. PSERS must report different types of retirement payments on separate forms. For instance, if you retired and had PSERS roll over taxable contributions and interest, you will receive multiple forms for the tax year in which the rollover occurred.

Form 1099-R Codes

IRS *Form 1099-R*, Box 7, identifies the distribution you received from PSERS during the previous tax year.

The following are the codes and the explanation of the payment:

1	An early (premature) distribution for which there is no known exception. (See IRS *Form 5329*.)
2	An early distribution where you have not reached age 59 1/2.
4	A death benefit payment.
7	A normal distribution (usually monthly retirement benefit payments).
A	A payment that may qualify for 10-year averaging.
G	A payment made as a direct rollover.

Receiving the *Form 1099-R*

PSERS automatically sends your *Form 1099-R* by the end of each January. If you have not received your *Form 1099-R* by February 10, you can obtain a copy through the MSS Portal or by contacting PSERS.

If you have an MSS account, you are automatically enrolled in Paperless Delivery. This means that you will receive your Form 1099-R electronically.

Please remember to keep your address current with PSERS. You may update your address at any time through the MSS Portal.

Reminder

PSERS receives many calls inquiring as to why there is a difference in the gross distribution and the taxable amount on the *Form 1099-R*. The possible reasons are:

- There was tax-free Pre-87 Investment in Contract money paid during the tax year. Because taxes were already paid on this money, the payment is included in the gross distribution but excluded from the taxable amount since no tax is due.
- A portion of the monthly retirement benefit qualified for the IRS Simplified General Rule.
- There was an excess refund showing a difference between gross amounts and taxable amounts as only the interest earnings are taxable.

Active Members and *Form 1099-R*

The contributions and interest you make to your PSERS account while an active member are tax- deferred until you withdraw the funds. You will not receive a *Form 1099-R* for the interest your contributions earn each year.

Receiving a DC Distribution

When you terminate all public school employment, you may be able to keep your contributions and earnings invested in the DC Plan or receive a distribution of your DC account as a lump-sum payment, partial lump-sum payment, or installments.

DC Distribution Paid Directly to You

The IRS requires PSERS' Third Party Administrator (TPA) to withhold 20% for federal withholding tax on all taxable distributions from the DC Plan. Your actual tax liability may be more or less than 20%, based on your total taxable income for the year in which you receive the distribution. No tax will be withheld from any after-tax contributions made to the DC Plan because taxes were previously paid on those contributions.

If you receive a distribution from your DC account and later decide you want to roll over the money into an IRA or other eligible retirement plan, you have 60 days from the distribution date to do so. This is referred to as a non-direct rollover. (See "Rollover Information for Refunds and Retirements .") You cannot return the payment to PSERS' TPA to reissue to an IRA or other eligible retirement plan.

If you terminate employment prior to the tax year in which you reach age 55 and receive a distribution before reaching age 59 1/2, you may be required to pay an additional 10% tax on early distribution to the IRS. You are responsible for paying the 10% tax on early distributions directly to the IRS. PSERS' TPA does not automatically deduct the tax on early distribution from your lump-sum payment, but can allow you to choose a federal tax withholding percentage greater than the mandatory 20%. (See IRS Form 5329.)

To avoid this early withdrawal penalty, you may choose to roll over your refund to an IRA or other eligible retirement plan or wait until you have reached age 59 1/2 before taking a distribution.

Direct Rollover of a Distribution

You may elect to have PSERS' TPA directly roll over your distribution into an IRA or other eligible retirement plan. This election would defer taxation until you withdraw the money from that account or plan. When you request to roll over your distribution, you will receive a more detailed notice regarding taxes on your rollover. Please refer to pages 19 to 27 for a sample of this notice.

The Required Minimum Distribution (RMD) rules of the Internal Revenue Service (IRS) mandate that retirement benefits begin to be distributed by April 1 of the calendar year following the year in which a terminated vested member reaches their Required Beginning Age or when an active member terminates service after having attained their Required Beginning Age. The IRS defines the Required Beginning Age as 70 1/2 if a member was born on or before June 30, 1949, or age 72 if a member was born on or after July 1, 1949. **If you do not begin receiving your RMD, the IRS may impose a 50% penalty tax on the amount not distributed.**

After-Tax Contributions

You may elect to have after-tax contributions deducted from your pay on a percentage basis and contributed to the PSERS DC Plan. These contributions are voluntary and can be changed or stopped at any time. Although after-tax contributions do not reduce your taxable income, only the earnings on the contributions, if any, are federally taxed when you receive a distribution.

If you reside in Pennsylvania, your distributions from the PSERS DC Plan are not subject to Pennsylvania state or local income tax. If you reside in another state, you must check with your state and local authorities to determine your tax responsibility

Taxing Your DC Distribution

Federal Taxes - Your PSERS DC distribution is subject to federal taxes. Refer to "Electing the Amount of Federal Withholding from Your DC Distribution" below for information on how to deduct federal taxes from your monthly distribution.

Pennsylvania State & Local Taxes - Your PSERS DC distribution is exempt from Pennsylvania state and local taxes.

Other States' Taxes - If you reside in another state, you must check with your state and local authorities to determine the taxability of payments made to you outside of Pennsylvania. If the state where you reside taxes your distribution, you must pay your taxes directly to that state's taxing authority. PSERS cannot withhold state taxes from your monthly distribution.

Electing the Amount of Federal Withholding from Your DC Distribution

You may elect your tax withholding on the distribution request form or change discuss your tax withholding options for installment payments at any time via your DC online account or by calling 1.833.432.6627.

DC Tax Statement

PSERS' TPA will automatically send your ***Form 1099-R*** by January 31 following the calendar year in which you received your DC distribution(s). Refer to "Tax Statement *Form 1099-R*" for more information.

Contacting PSERS

You may contact PSERS toll-free at 1.888.773.7748 from 8:00 a.m. to 5:00 p.m., Monday through Friday, except on State holidays. PSERS also has regional offices located throughout the state. You may reach your local regional office from 8:30 a.m. to 5:00 p.m. A complete list of all PSERS regional offices and contact numbers is found on PSERS website under Regional Offices.

PSERS
5 N 5th Street
Harrisburg PA 17101-1905

Toll-free: 1.888.773.7748
Local Telephone: 717.787.8540

Email address: *ContactPSERS@pa.gov*

Website: *psers.pa.gov*

PSERS' TPA, Voya Financial®
Attn: PSERS School Employees' Defined Contribution Plan
P.O. Box 24747
Jacksonville, FL 32241-4747

For overnight delivery:

Voya Financial®
Attn: PSERS School Employees' Defined Contribution Plan
8900 Prominence Parkway
Jacksonville, FL 32256

Toll-free: 1.833.432.6627
Website: *PSERSDC.voya.com*

Distribution Rollover Notice – SAMPLE

(For PSERS DC Plan Participants)

YOUR ROLLOVER OPTIONS

You are receiving this notice because all or a portion of a payment you are receiving from the 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 (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 (up to the amount of cash and property received). 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); and
- Corrective distributions of contributions that exceed tax law limitations.

Voya 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 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;
- 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 (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; 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 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).
- 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 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 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 qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a qualified domestic relations order (QDRO), 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 QDRO 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, 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.

Unless you elect otherwise, a mandatory cashout of more than $1,000 will be directly rolled over to an IRA chosen by PSERS. A mandatory cashout is a payment from a plan to a participant without consent, where the participant's benefit does not exceed $5,000 .

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 Voya, 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.

PSERS

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

5 N 5th Street
Harrisburg, PA 17101-1905
psers.pa.gov
ContactPSERS@pa.gov