

EMPLOYEES' RETIREMENT SYSTEM OF
THE CITY OF PROVIDENCE

(PLEASE PRINT ALL ENTRIES BELOW.)

NAME: _____
(Last) (First) (Middle)

Date of Birth: _____ Soc. Sec. No.: _____

Home Address: _____

Home Phone No.: () _____ Employment Termination Date: _____

DIRECT ROLLOVER ELECTION

The taxable portion of your distribution is subject to an automatic 20% Federal Income tax withholding. You can, however, authorize the Retirement Board to directly roll over all or any amount of the taxable amount to an Individual Retirement Account (IRA) of your choice or another Employer's qualified plan thereby, avoid the 20% tax withholding on the amount which is rolled over. NOTE: The Retirement Board will automatically withhold 20% of the taxable amount of your distribution which is not directly rolled over.

I have read the "Memorandum of Tax Implications" and

() I DO NOT wish to authorize a rollover of the taxable portion of my distribution.

() I hereby authorize the Retirement Board to directly roll over _____% (mutipals' of 1%) of the taxable portion of my distribution to:

() an IRA () other Employer qualified plan, as specified below.

I understand I will need to submit a statement from the financial institution or other Employer Plan that is qualified to accept, and it will accept, the rollover distribution from this Plan.

Financial Institution Employer Plan: _____

Address: _____

IRA Account No. (If applicable): _____

ABA/Routing No.: _____ (for Wire Transfer Only)

Signature of Member

Date

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF PROVIDENCE

New IRS rules require 20% withholding from certain payments made to you from the Retirement System.

Payments subject to 20% withholding are:

- 1) Refunds of employee contributions before retirement. 20% of the taxable portion will be withheld if it exceeds \$200.00. No withholding is made if the taxable portion is less than \$200.00.
- 2) The taxable portion lump sum payments under Option IV is subject to 20% withholding.

Your after-tax contributions have already been taxed and they will be returned to you tax free.

You can avoid any required withholding on the taxable amount of your distribution by electing payment of that amount as a direct rollover to an IRA or other qualified plan using the form designated by the Retirement Board at the time of payment. Remember, only taxable amounts may be rolled over.

The following is a brief description of the tax rules which apply to your two choices. You may want to consider them in making your election.

I. DIRECT ROLLOVER

You can choose a direct rollover of all or any portion of the taxable portion of your payment. In a direct rollover, the distribution is paid directly from the Retirement System to an IRA or another qualified employer plan that accepts rollovers. If you choose a direct rollover, you are not taxed on the payment until you later take it out of the IRA or the employer plan. Direct Rollover to an IRA.

Direct Rollover to an IRA. You can open an IRA to receive the direct rollover. (The term "IRA" is used in this notice, includes individual retirement accounts and individual retirement annuities.) 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 money. However, in choosing an IRA, you may wish to consider whether the IRA you choose will allow you to move all or part of your payment to another IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on IRA's (including limits on how often you can roll over between IRA's).

Direct Rollover to a Plan. If you are employed by a new employer that has a qualified plan, and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. An employer 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.

II. PAYMENT PAID TO YOU

If the payment is made to you, the taxable portion is subject to 20% income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another plan that accepts rollovers.

INCOME TAX WITHHOLDING

Mandatory Withholding: If the payment is made to you and the taxable portion is over \$200.00, the Retirement System is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if your taxable distribution is \$3,000.00, only \$2,400.00 will be paid to you because the Retirement System must withhold \$600.00 as income tax. However, when you prepare your income tax return for the year, you will report the full \$3,000.00 as a payment from the Retirement System. You will report the \$600.00 as tax withheld, and it will be credited against any income tax you owe for the year.

Sixty Day Rollover Option: If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of the taxable amount to an IRA or another employer plan that accepts rollovers. If you decide to roll over, you must make the rollover within 60 days after you receive the payment. The taxable portion of your payment that is rolled over will not be taxed until you take it out of the IRA or the employer plan.

You can roll over up to 100% of the taxable portion, including an amount equal to the 20% that was withheld. If you choose to roll over 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.

Example: Your taxable distribution is \$3,000.00, and you choose to have it paid to you. You will Receive \$2,400.00 and \$600.00 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$2,400.00, you may roll over the entire \$3,000.00 to an IRA or employer plan. To do this, you roll over the \$2,400.00 you received from the Retirement System, and you will have to find \$600.00 from other sources (your savings, a loan, etc.). In this case, the entire \$3,000.00 is not taxed until you take it out of the IRA or employer plan. If you roll over the entire \$3,000.00, when you file your income tax return you may get a refund of the \$600.00 withheld.

If, on the other hand, you roll over only \$2,400.00, the \$600.00 you did not roll over is taxed in the year it was withheld. (However, any refund is likely to be larger if you roll over the entire \$3,000.00.).

Additional 10% Tax If You Are Under 59 1/2: If you receive a payment before you reach age 59 1/2 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% of the taxable portion of the payment. The additional 10% tax does not apply to your payment if it is (1) paid to you because you separate from service with the City during or after the year you reach age 55, (2) paid because you retire due to disability, or (3) used to pay certain medical expenses. See IRS Form 5329 for more information on the additional 10% tax.

Special Tax Treatment: If your distribution is not rolled over, it will be taxed in the year you receive it. However, you may be eligible for special tax treatment if you are age 59 1/2 and you have been a participant in the Retirement System for at least 5 years. The special tax treatment for lump sum distributions permits you to use "5 year averaging". Five year averaging may reduce the tax you owe because it treats the payment as if it were paid over 5 years. You should consult a tax advisor if you are considering electing lump sum treatment.

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the federal(not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor. Also, 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. Those publications are available from your local IRS office or by calling 1-800-TAX-FORM.