

University of California Retirement Plan (UCRP)



Lump Sum Cashout Factsheet

The lump sum cashout is available to members who are eligible to retire when they leave University employment and to inactive or disabled members when they reach age 50. The lump sum cashout is the “actuarial equivalent” present value of a UCRP member’s lifetime retirement income. In other words, it is a single payment that would be sufficient to pay monthly retirement income with 2 percent cost-of-living adjustments over an average expected life span, provided the single payment were invested and earned 7.5 percent annually, the Plan’s current assumed earnings rate.

Important Considerations

- The lump sum cashout is based on average life expectancy, which means that if you live longer than the average, you could outlive your lump sum cashout. Monthly retirement income from UCRP is paid out over your lifetime no matter how long you live, and if you choose a contingent annuitant, it is paid out over two lifetimes.
- Assuming you live an average lifetime, are you confident you—or your financial advisor—can invest your assets so they consistently earn 7.5 percent without exposing yourself to unacceptable risk?
- If you have considered purchasing an annuity with some or all of your lump sum cashout, have you compared the income such an annuity could provide with monthly retirement income from UCRP?

Questions and Answers

General Questions and Calculations

Can I elect the lump sum cashout while I am still employed?

You cannot receive the cashout while still employed. However, you can complete the election forms before you leave UC, as long as the effective date of your cashout is after the date your employment will end.

- Have you factored in the cost of medical and dental coverage? If you elect the lump sum cashout, UC medical and dental coverage stop.

What is Forfeited

The calculation does not include:

- basic death payment;
- post-retirement survivor continuance;
- contingent annuitant benefit;
- temporary Social Security supplement (for those under 65); or
- service credit for unused sick leave

In addition, the member forfeits the right to all other benefits such as continued UC medical and dental insurance.

Example

A member elects the lump sum cashout at age 60.

Basic retirement income is \$2,000 per month.

The lump sum cashout factor for age 60 is currently 152.04.

$$\$2,000 \times 152.04 = \$304,080.00$$

The member’s lump sum cashout is a one-time payment of \$304,080.00.

Is my Capital Accumulation Provision (CAP) balance included in the lump sum cashout calculation?

No. Your CAP balance, if any, is paid separately from (and in addition to) the lump sum cashout.

Can I split my UCRP benefits—taking half in a lump sum cashout and half in monthly retirement income?

No. You must choose between the cashout and monthly retirement income.

Can I continue medical, dental, vision, and legal benefits? What if I pay the monthly premiums?

Your medical, dental, vision, and/or legal coverage through UC will stop at the end of the last month of your paid coverage as a UC employee. You may, however, be eligible to continue medical, dental, and vision coverage under COBRA for a limited time at applicable monthly rates. You may convert to an individual medical policy within 31 days of the date group coverage ends. You may also be able to convert your group legal coverage to an individual policy. You may not convert your dental or vision plan to an individual policy. See the *COBRA Continuation Coverage General Notice*.

Since the cashout calculation does not include the basic death payment, will it be paid separately? What about income for my spouse when I die?

Neither benefit is provided. By electing the cashout, you forfeit all future UCRP benefits—including those that would be payable to your eligible survivors or beneficiaries at the time of your death.

If I am receiving UCRP disability income, can I elect the lump sum cashout?

Yes. If you are eligible to retire, you are eligible to elect the lump sum cashout. Your UCRP disability income and all other benefits will stop, based on your cashout date.

Are there any other special considerations regarding a lump sum cashout?

Yes. You should carefully consider the advantages and disadvantages of the cashout for your own situation. UC HR/Benefits recommends that you consult your tax and/or personal financial advisor before making an irrevocable decision such as this.

Will I receive an adjustment to my lump sum cashout if any future increases are made to UCRP retirement benefits? What about COLAs?

No. Projected 2 percent cost-of-living increases are included in the cashout amount. Since you forfeit all future UCRP benefits when you elect the lump sum cashout, no future adjustments will be made.

Is the lump sum cashout subject to defined benefit limits under section 415 of the Internal Revenue Code?

Yes. IRC section 415(b) places a maximum limit on total benefits payable in any calendar year from a defined benefit plan such as UCRP. However, UC's 415(m) Restoration Plan—a non-qualified pension plan—was established effective January 1, 2000, to pay UCRP benefits that would not otherwise be payable because of the section 415(b) limit. If your lump sum cashout is affected by the section 415(b) limit, you will receive additional information about the 415(m) Restoration Plan during the election process.

Taxes and Rollover Options

Is the lump sum cashout taxable?

All UCRP benefits are subject to federal and state income taxes in the year you receive them. Unless you arrange for a direct rollover of your money (see below), 20 percent federal income tax must be withheld from your distribution.

Also, an early distribution penalty tax (10 percent federal and 2½ percent California) may apply unless you qualify for an exception based on special circumstances including, but not limited to:

- You are at least age 59½ on the cashout date;
- You are at least age 55 at the end of the calendar year in which you leave UC employment; or
- You are permanently disabled.

This penalty tax does not apply to any part of the cashout that you roll over.

Please note: If you contributed to the Plan on an after-tax basis (i.e., member contributions made before July 1, 1983, or after-tax payments for service credit buyback), taxes have already been paid on the portion of the cashout that represents a return of those contributions. You will not be taxed on that portion again.

How are taxes withheld from the cashout amount?

On the taxable amount that you do not directly roll over, 20 percent federal tax will be withheld, as required by law. California state taxes are withheld at 10 percent of the federal rate unless you specify otherwise. For additional details about your rollover options and income tax withholding, see the *Special Tax Notice for Plan Distributions*, which is included in the *UCRP Election Handbook*.

Is the lump sum cashout eligible for rollover?

Yes. You may roll over the cashout to any of the following:

- UC's Defined Contribution (DC) Plan (pre-tax and after-tax rollovers; available only if your resulting plan balance will be at least \$2,000);
- UC's Tax-Deferred 403(b) Plan (pre-tax and after-tax rollovers; available only if your resulting plan balance will be at least \$2,000);
- UC's 457(b) Deferred Compensation Plan (pre-tax rollovers only; available only if your resulting balance will be at least \$2,000);
- A traditional IRA or another employer's 401(a), 401(k), 403(b), or governmental 457(b) plan;
- A Roth IRA (provided that for cashouts before January 1, 2010, your adjusted gross income does not exceed \$100,000 for the taxable year of the cashout and you are not married and filing a separate return).

Before rolling over the after-tax portion of your cashout (if any), confirm that the recipient plan accepts after-tax rollovers.

On any part of the cashout that you directly roll over, no taxes are withheld. Taxes are deferred until you actually receive the money unless the rollover is to a Roth IRA. For rollovers to a Roth IRA, the taxable portion of the cashout will be taxed in the year of the cashout.

Estimates and Applications

How can I get an estimate of the cashout (as well as my retirement income options)?

You can obtain estimates of your future retirement benefits, including an estimate of the lump sum cashout, by using At Your Service Online (atyourservice.ucop.edu). Select the "Sign in to My Accounts" option and then select "Retirement Estimates." If you don't have Internet access, contact your Benefits Office for estimates. (Inactive UCRP members should request estimates from the UC Customer Service Center at 1-800-888-8267.)

How do I request a lump sum cashout?

You start the process by obtaining a Personal Retirement Profile from your local Benefits office. The Personal Retirement Profile contains up-to-date information on your University benefits. The profile summarizes your various UCRP benefit options,

including the lump sum cashout, and makes it possible for you to make informed decisions. After reviewing your profile, schedule an election interview with a Benefits Representative. During the interview, your Benefits Representative will produce a personalized benefit election form. Finally, you submit your election form to UC Retirement Services. Call your local Benefits Office to confirm procedures, which may vary depending on your campus or laboratory. (Inactive UCRP members should call the UC Customer Service Center at 1-800-888-8267.)

If I get a Personal Retirement Profile, am I obligated in any way?

No. Your request for a profile does not commit you to anything.

If I apply for the lump sum cashout, should I specify the date in advance—as I would if I were applying for monthly retirement income?

Yes. You must specify a cashout date. The cashout date you choose is the date on which the benefit is calculated. Your cashout date cannot be earlier than the day after your separation date (your last day of UC employment). For example, if your separation date is a Friday, your lump sum cashout date may be on Saturday.

Elections and Beneficiaries

When can I expect to receive my cashout check?

When the election process is complete, UC Retirement Services will send you a confirmation letter. This letter will confirm your benefit amount and the date you can expect to receive your cashout check. In general, if you submit your election form and any necessary documentation three months before your cashout date, you should receive your payment at the beginning of the month following the month in which your cashout date occurs. For example, if your cashout date is July 1, you should receive payment the beginning of August.

If I elect the lump sum cashout but change my mind before I cash the check, can I return it and choose retirement income instead?

The lump sum cashout decision is irrevocable from the date specified on your election form (the effective date of your cashout), or 15 days after Retirement Services sends you your confirmation statement, if later.

What if I die before submitting the election form? Can my family elect the lump sum cashout?

No. The cashout election is not available to survivors.

What if I die before I receive the payment?

If your death occurs after you make the election but before you receive payment, the lump sum cashout will be paid to your designated beneficiary. You should designate a beneficiary using our online service (atyourservice.ucop.edu); click on the option “Sign in to My Accounts” and select “My Beneficiaries.” Or you may submit a *Designation of Beneficiary—Employees* form (UBEN 116) or *Designation of Beneficiary—Retirees, Former Employees and Others* form (UBEN 117).

Rehire

What happens if I take the lump sum cashout and am later rehired by UC?

Taking the lump sum cashout is considered a retirement. There are specific rules about being rehired after a lump sum cashout, please see “Guidelines for Reemployment After Retirement” in the *Returning to UC Employment After Retirement Factsheet* for additional information.

If I am rehired, can I buy back my UCRP service credit by redepositing the cashout amount?

No. When you elect the lump sum cashout, you forfeit the right to buy back any service credit up to the time of the cashout. This includes buyback not only for the cashout period itself, but also for any periods of leave, furlough, noncontributory service, or earlier periods of UC employment.

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