

Special Tax Notice for Plan Distributions

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

The University of California Retirement System (UCRS) is the plan administrator of three UC-sponsored retirement savings and investment plans. UCRS provides this notice to explain federal tax laws that apply to distributions from the:

University of California Retirement Plan (UCRP)

Defined Contribution Plan (the DC Plan)—Pretax Account and After-Tax/Rollover Account

Tax-Deferred 403(b) Plan (the 403(b) Plan)

This notice contains important tax information you will need if you decide to take a distribution of your UCRS money. It will help you to determine:

- ▶ whether the distribution is eligible for rollover (see chart on page 3), and, if so,
- ▶ what your choices are, and
- ▶ how your taxes and tax withholding are affected by the choices you make.

Note—California tax laws may differ from federal tax laws. Therefore, California residents should be aware that certain distribution options described in this notice may result in different tax treatment by the state (see “California Rules and Tax Laws” on page 7).

HIGHLIGHTS

If a UCRS distribution is eligible for rollover, you may have payment made in either of two ways. You can have all or a portion of the distribution either (1) paid in a DIRECT ROLLOVER to a traditional IRA (not a Roth IRA) or to an employer plan that will accept your rollover, or (2) PAID TO YOU. Your choice will affect the tax withheld, if any, and the tax you owe.

If you choose a DIRECT ROLLOVER:

- ▶ No federal taxes will be withheld from the taxable portion of the distribution.
- ▶ The taxable portion of the distribution will not be taxed until you withdraw the money from the IRA or employer plan. Depending on the type of IRA or employer plan, subsequent distributions from the new IRA or plan may be subject to different

rules or tax treatment than those applicable to distributions paid from the UCRS plans.

- ▶ The distribution check is payable to your IRA or to the recipient employer plan.

If you choose to have your distribution PAID TO YOU:

- ▶ 20% federal tax will be withheld from the taxable portion of the distribution, as required by law. No exceptions.
- ▶ You will receive 80% of the amount you request as a distribution. (California residents—see “California Rules and Tax Laws” on page 7.)
- ▶ Any taxable portion of the distribution that you do not roll over within 60 days will be taxable income in the year it is paid. See “60-Day Rollover Option” on page 5.
- ▶ Special rules may allow you to reduce the tax you owe on a distribution from UCRP or the DC Plan. See “Additional Tax Information” on page 6.
- ▶ Tax penalties may apply if you are not yet age 59½.

If a distribution is not eligible for rollover, it will be PAID TO YOU.

- ▶ Tax-withholding requirements vary. See “Voluntary Withholding” on page 5.

If you take a distribution (whether you roll it over or have it paid to you), you must report it on your income tax return for the year in which the money is distributed. You will have to use Form 1040A or 1040; Form 1040EZ cannot be used for distributions from retirement plans.

Waiver of 30-Day Notice Period

You have 30 days from the date this notice (or a summary of this notice) was provided to decide whether to have a Plan distribution made payable as a direct rollover to a traditional IRA or employer plan or made payable to you (generally no Plan distribution will be issued before the 30-day period expires). If you want to waive the 30-day notice period before your election is processed, contact UC HR/Benefits (see “Additional Resources and Information”). Your distribution will then be processed as described on page 2.

Distribution Processing Dates

DC and 403(b) Plan distribution checks are issued twice a month, around the 7th and the 23rd. If a distribution request is made before midnight on the 21st of the month, the check generally will be mailed around the 23rd of the following month, with account balances valued at the end of the prior month. If a distribution request is made after the 21st but before midnight on the 25th, the check generally will be mailed in two months—around the 7th. Distributions mailed around the 7th of the month are valued at the end of the month two months prior.

Once a check has been issued, it is irrevocable—UC will not accept returned checks, nor reissue a check to another IRA trustee or employer plan.

Cancellation of Distribution/Rollover Request

Distribution requests may be cancelled in writing, subject to the monthly processing dates (generally the 21st of each month). When writing to cancel a distribution request, include your name, Social Security number, the confirmation number, and a statement that you want to cancel a previous distribution request. You must sign and date your cancellation request.

UCRS Distributions Eligible/Ineligible for Direct Rollover

ELIGIBLE DISTRIBUTIONS

A UCRS distribution is eligible for direct rollover if it is one of the following:

Nonperiodic Distributions

If you withdraw all your money from a plan, it is generally eligible for direct rollover—with exceptions as noted below (see “Ineligible Distributions”). Partial distributions from the DC Plan or 403(b) Plan are also generally eligible. The UCRP Capital Accumulation Provision (CAP) payment is eligible.

Group Insurance Contract Annuities

If you buy a commercial annuity through UC’s group insurance contract that is not based on life expectancy and is paid in installments over a period of less than 10 years, the payments are eligible for direct rollover.

403(b) Plan Loan Defaults

Defaulting on a loan from the 403(b) Plan Loan Program

is generally considered a distribution from the 403(b) Plan and is eligible for rollover. Unless you roll over, from personal savings or other sources, an amount equal to all or a portion of the defaulted loan within 60 days of the date of the default, the defaulted amount is taxable income in the year of the default. The amount rolled over cannot exceed the defaulted loan amount.

INELIGIBLE DISTRIBUTIONS

A distribution is not eligible for direct rollover if it is one of the following:

Monthly Income

You cannot roll over a payment that is part of a series of substantially equal payments made at least once a year over a period of:

- ▶ your lifetime/life expectancy,
- ▶ your and your beneficiary’s lifetimes/life expectancies, or
- ▶ 10 years or more.

The following distributions from UCRP are not eligible for direct rollover:

- ▶ monthly retirement/disability income
- ▶ monthly preretirement survivor income
- ▶ monthly postretirement survivor continuance

Minimum Required Distributions

Beginning April 1 of the year following the year you reach age 70½ (or leave University employment, if later), you are required to receive distributions from the plans in a certain minimum amount. These distributions may not be rolled over. Minimum required distributions are taxable income in the year you receive them. (Any taxable amount paid to you that exceeds the required minimum amount will be subject to the 20% federal withholding unless directly rolled over.)

Note—if you are subject to the minimum distribution requirements and request a direct rollover of your total Plan balance, UC will issue a check for your minimum required distribution (payable to you), before processing the direct rollover of your remaining Plan balance.

Refunds of Excess Contributions

A refund from the Plan(s) of amounts that exceed the maximum IRS contribution limits (and any earnings thereon) is not eligible for direct rollover. Refunds of pretax contributions are taxable in the year the contributions were made. Any earnings are taxable in the year in which the money is refunded.

UCRS DISTRIBUTIONS ELIGIBLE/INELIGIBLE FOR DIRECT ROLLOVER

	Eligible†	Ineligible
University of California Retirement Plan:		
Monthly retirement/disability income		◆
Monthly preretirement survivor income (paid to a spouse for more than 10 years)		◆
Monthly postretirement survivor continuance		◆
Refund of accumulations	◆	
CAP balance	◆	
Lump sum cashout	◆	
Lump sum death payments:		
to surviving spouse	◆	
to non-spouse beneficiary		◆
QDRO distribution—monthly income		◆
QDRO distribution—cashout/refund/CAP:		
to spouse/former spouse	◆	
to non-spouse		◆
Defined Contribution Plan:		
Full distribution	◆	
Partial distribution	◆	
Minimum required distribution		◆
Lump sum death payments:		
to surviving spouse	◆	
to non-spouse beneficiary		◆
QDRO distribution:		
to spouse/former spouse	◆	
to non-spouse		◆
Tax-Deferred 403(b) Plan:		
Full distribution	◆	
Partial distribution	◆	
Minimum required distribution		◆
Lump sum death payments:		
to surviving spouse	◆	
to non-spouse beneficiary		◆
QDRO distribution:		
to spouse/former spouse	◆	
to non-spouse		◆

† Exceptions: Amounts of distributions that are not eligible include:

- A refund of excess contributions/earnings thereon.
- 403(b) Plan hardship distributions consisting of employee contributions.

Making a Direct Rollover

DIRECT ROLLOVER TO AN IRA

You will need to establish an IRA (a traditional individual retirement account or annuity) or Simplified Employee Pension (SEP) IRA to receive the direct rollover. Distributions **cannot** be rolled over to Roth IRAs, SIMPLE IRAs, or to Coverdell Education Savings Accounts (formerly known as education IRAs). Before you request payment, you must contact the IRA trustee (usually a bank, mutual fund, or other financial institution) and ask how the check should be drawn to make a direct rollover to an IRA at that institution. UC will issue the check to your IRA trustee and mail it to your home address.

It is your responsibility to deposit the rollover check promptly with the IRA trustee.

Example

Eligible distribution. DIRECT ROLLOVER to an IRA.

Total distribution from Plan:	\$10,000
Direct rollover to IRA:	10,000
Tax withheld:	00
Taxable in current year:	00

If you are unsure how to invest your money, you can temporarily establish an IRA until you decide. In this case, you will want to consider whether the IRA you choose will allow you to move all or part of the taxable portion of your money to another IRA or employer plan at a later date without penalties or other limitations. Also see IRS Publication 590, *Individual Retirement Arrangements*, for more information on IRAs, including limits on how often you can roll over between IRAs.

A direct rollover may be made to an existing or separate IRA. However, if you think you may later move the taxable portion of your money to an employer plan, you must establish (and maintain) it either in a separate IRA or in an IRA that includes only money from the same type of plan.

If your rollover includes any after-tax contributions, you are responsible for keeping track of these contributions and for reporting them to the IRS (UC HR/Benefits can tell you the amount of any after-tax contributions included in your distribution request). This will ensure you will not be subject to income taxes on the nontaxable amount of any future distributions you take from your IRA. Also, note that after-tax contributions cannot later be rolled over from your IRA to an employer plan.

DIRECT ROLLOVER TO A PLAN

You may roll over your distribution to the following types of employer-sponsored plans: qualified 401(a) and 401(k) plans, profit-sharing plans, stock bonus plans, money purchase plans, IRC §403(a) annuity plans, IRC §403(b) tax-sheltered annuities, and governmental 457(b) plans.

Before you roll over your distribution, you will have to verify that the administrator of the new plan will accept your rollover and, if so, the types of distributions it accepts (for example, distributions that include after-tax contributions). No plan is legally required to accept a direct rollover. Note that if the new employer plan accepts distributions that include after-tax contributions, it must provide separate accounting for the after-tax contributions, as well as any earnings on those contributions. Rollovers of after-tax contributions cannot be made to governmental 457(b) plans.

Example

Eligible distribution. DIRECT ROLLOVER to an employer plan.

Total distribution from Plan:	\$10,000
Direct rollover to employer plan:	10,000
Tax withheld:	00
Taxable in current year:	00

You should be aware that money rolled over to the new employer-sponsored plan will generally be subject to the provisions of that plan; for example, the plan's provisions may restrict subsequent distributions or require your spouse's consent for a distribution request. Subsequent distributions may also be subject to different tax treatment (see "Special Tax Treatment for Lump Sum Distributions" on page 7). For these reasons, you may want to verify the distribution provisions with the administrator of the new plan before you roll over your money.

PART DIRECT ROLLOVER

If you choose to have part of an eligible distribution paid as a direct rollover and part paid to you, the direct rollover amount must be at least \$500.

Example

Eligible distribution. Part is DIRECT ROLLOVER, part is PAID TO YOU.

Total distribution from Plan:	\$10,000
Direct rollover to IRA:	8,000
20% tax withheld (on \$2,000):	400
Paid to you:	1,600
Taxable in current year:	\$ 2,000

Distributions Paid to You

MANDATORY WITHHOLDING

If a distribution is eligible for direct rollover and you have it paid to you, 20% federal income tax must be withheld from the taxable portion of the distribution. (You may also ask to have an additional flat-dollar amount withheld.) For example, if you want \$10,000 paid to you, you must request a distribution of 125% of that amount, or \$12,500.

Example

Eligible distribution PAID TO YOU. You keep the money (no rollover).

Total taxable distribution from Plan:	\$12,500
Direct rollover:	00
20% tax withheld (on \$12,500):	2,500
Paid to you:	10,000
Taxable in current year:	\$12,500

VOLUNTARY WITHHOLDING

The 20% mandatory withholding rule does not apply to any part of a distribution that is ineligible for rollover, even though that part is taxable. Instead, federal income tax will be withheld as follows:

- ▶ nonperiodic distributions: 10%, unless you elect no or more withholding (flat-dollar amounts).
- ▶ periodic distributions: An amount based on the tax table for a married individual claiming three allowances, unless you elect different (or no) withholding.

(Note—you may not elect to have no withholding if your distribution is being mailed outside the United States or if you are a nonresident alien.)

60-DAY ROLLOVER OPTION

If a distribution is eligible for direct rollover and you have it paid to you, you can still decide to roll over all or any part of the money to a traditional IRA or employer plan within 60 days. Note—you cannot use the 60-day rollover option to roll over after-tax contributions to an employer plan.

If you want to roll over the entire amount of the distribution you requested, you must replace, from your personal savings or other sources, an amount equal to the 20% that was withheld.

Example

Eligible distribution PAID TO YOU. You roll over the entire distribution (\$10,000) within 60 days.

Total taxable distribution from Plan:	\$10,000
Direct rollover:	00
20% tax withheld (on \$10,000):	2,000
Paid to you:	8,000
You use from your savings:	2,000
You roll over:	10,000
Taxable in current year:	00

If you roll over only the 80% that you received, you must pay taxes on the remaining 20%.

Example

Eligible distribution PAID TO YOU. You roll over the amount you receive within 60 days.

Total taxable distribution from Plan:	\$10,000
Direct rollover:	00
20% tax withheld (on \$10,000):	2,000
Paid to you:	8,000
You roll over:	8,000
Taxable in current year:	\$ 2,000

Note—tax penalties or special tax rules may also apply. See pages 6–7.

Distributions Paid to Surviving Spouses, Other Beneficiaries, and QDRO Payees

Generally, the rules in this notice apply to distributions not only to Plan members and participants but also to their surviving spouses and to spouses or former spouses receiving a community property settlement under a qualified domestic relations order (QDRO). Some of the rules in this notice also apply to distributions made to non-spouse beneficiaries.

DISTRIBUTION TO A SURVIVING SPOUSE

You may choose to have an eligible distribution:

- ▶ paid in a DIRECT ROLLOVER to a traditional IRA or to an employer plan that will accept your rollover, or
- ▶ PAID TO YOU.

If paid to you, the taxable portion of the distribution is subject to 20% withholding. You can roll over the money yourself (within 60 days) to an IRA or to an employer plan that will accept your rollover.

There is no penalty tax on early distributions.

You may be able to use the special tax treatment for lump sum distributions if the Plan participant met the appropriate age requirements—five years of Plan participation is not required. See “Special Tax Treatment for Lump Sum Distributions” on page 7.

DISTRIBUTIONS TO OTHER BENEFICIARIES

A distribution to a beneficiary other than a spouse, surviving spouse, or former spouse, is not eligible for rollover. You may, however, be able to use the special tax treatment for lump sum distributions if the Plan participant met the appropriate age requirements—five years of Plan participation is not required. See “Special Tax Treatment for Lump Sum Distributions” on page 7.

For information on federal tax withholding, see “Voluntary Withholding” on page 5.

There is no penalty tax on early distributions.

QDRO DISTRIBUTIONS

If you are a former spouse, you may choose to have an eligible distribution:

- ▶ paid in a DIRECT ROLLOVER to a traditional IRA or to an employer plan that will accept your rollover, or
- ▶ PAID TO YOU.

If paid to you, the distribution is subject to 20% withholding. You can roll over the money yourself (within 60 days) to an IRA or to an employer plan that will accept your rollover.

There is no penalty tax on early distributions.

If you receive a total distribution, you may be able to use the special tax treatment for lump sum distributions if the Plan participant met the appropriate age requirements and had five years of Plan participation. See “Special Tax Treatment for Lump Sum Distributions” on page 7.

If you are a non-spouse alternate payee, any distribution you receive is not eligible for rollover. Further, you may not use the special tax treatment for lump sum distributions.

Additional Tax Information

PENALTY TAX ON EARLY DISTRIBUTIONS

If you receive a taxable distribution before you reach age 59½ and you do not roll it over, you must pay a 10% federal penalty tax (plus a 2½% California state penalty tax, if applicable), in addition to regular income tax, unless:

- ▶ you leave UC during or after the year you reach 55,
- ▶ you are permanently disabled,
- ▶ you receive a series of substantially equal distributions over your life/life expectancy (or your and your beneficiary’s lives/life expectancies),
- ▶ you will use it for deductible medical expenses in excess of 7.5% of your adjusted gross income, or
- ▶ it is paid to an alternate payee under a QDRO.

Note—if any or all of a 403(b) or DC Plan distribution you request consists of money previously rolled over from a governmental 457(b) plan, that amount will also be subject to the early distribution penalty taxes. UC HR/Benefits does not assess early distribution penalties when a distribution is paid. Participants who are subject to the penalties are responsible for reporting them to the IRS when they file their income tax returns.

SPECIAL TAX TREATMENT FOR LUMP SUM DISTRIBUTIONS

An eligible distribution that is not rolled over will be taxed in the year it is paid; however, it may be eligible for special tax treatment if it qualifies as a lump sum distribution.

Generally, a lump sum distribution is a payment, within one calendar year, of your entire balance from a qualified plan that is payable to you because you have reached age 59½ or have separated from service. The distribution must be paid after the calendar year in which you have completed five years of Plan participation.

UCRS distributions that may qualify as lump sum distributions include:

- ▶ UCRP refund of accumulations plus CAP payment, if any;
- ▶ UCRP lump sum cashout plus CAP payment, if any; and
- ▶ DC Plan full distribution

Note—distributions from the 403(b) Plan are not eligible for special tax treatment.

Ten-Year Averaging

If you were born before January 1, 1936, you may make a one-time election to figure the tax on a lump sum distribution by using 10-year averaging (using 1986 tax rates). This rule may reduce the tax you owe.

Capital Gain Treatment

If you were born before January 1, 1936, you may elect to have the part of a lump sum distribution that is attributable to pre-1974 Plan participation (if any) taxed as long-term capital gain at a rate of 20%.

Other Considerations on Special Tax Treatment

The special tax treatment on a lump sum distribution:

- ▶ generally can be elected only once in your lifetime.
- ▶ applies to all lump sum distributions you receive during the same year.
- ▶ cannot be used if any part of a distribution was rolled over to another plan or to a traditional IRA.
- ▶ cannot be used on distributions from the Plan if you have previously rolled over amounts from the Plan.
- ▶ cannot be used for Plan distributions if you have rolled over into the Plan amounts from sources other than 401(a) or 401(k) plans.
- ▶ cannot be used on a distribution from a traditional IRA, a 403(b) tax-sheltered annuity, or a governmental 457(b) plan.

Additional restrictions apply. Refer to IRS Publication 575 and IRS Form 4972.

CALIFORNIA RULES AND TAX LAWS

In this notice, only federal rollover rules and tax considerations are described in detail (not state or local). For example, California may not allow many types of rollovers that are currently permitted under federal tax law, and it is possible that a rollover that is not provided for under California tax law could subject you to California state tax and penalties on the full amount of the rollover. Also, you should know that California state tax is generally withheld at 10% of the federal rate (i.e., if 20% federal tax is withheld, 2% California state tax is withheld; if 10% federal tax, then 1% California tax). However, even when federal withholding is mandatory, you may elect to have no withholding for California tax.

If your distribution is mailed to an address outside California, you will generally still owe California taxes if you are a resident of California. See your tax advisor or contact your local state tax agency about your state tax liability.

ADDITIONAL RESOURCES AND INFORMATION

The rules described here are complex, and conditions and exceptions may apply that are not included in this notice. Therefore, we recommend that you consult a professional tax advisor before you request a distribution from the plans. Also, for more specific information on the tax treatment of distributions from qualified retirement plans, contact your local IRS office or call **1-800-TAX-FORM** and ask for:

IRS Publication 575,
Pension and Annuity Income

IRS Publication 590,
Individual Retirement Arrangements

IRS Form 4972,
Tax on Lump Sum Distributions

UC Human Resources and Benefits

If you have additional questions after reading this notice or want specific information about your account in the UC plans, call the UC Customer Service Center at:

1-800-888-8267

Hours: 9:00 a.m.–4:00 p.m. Monday–Friday

Written correspondence should be sent to:

UC HR/Benefits
P.O. Box 24570
Oakland CA 94623-1570

You can also obtain a wealth of information about UC's retirement savings and investment plans by visiting UC's benefits website: www.ucop.edu/bencom

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In conformance with applicable law and University policy, the University is an affirmative action/equal opportunity employer. Please send inquiries regarding the University's affirmative action and equal opportunity policies for staff to Director Mattie Williams, University of California Office of the President, 300 Lakeside Drive, Oakland, CA 94612 and for faculty to Executive Director Sheila O'Rourke, University of California Office of the President, 1111 Franklin Street, Oakland, CA 94607.

Website address: www.ucop.edu/bencom



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