Municipal Employees' Retirement System

Municipal Employees' Retirement System of Michigan
1134 Municipal Way • Lansing, MI 48917
800.767.MERS (6377) • Fax: 517.703.9706
www.mersofmich.com

Defined Benefit DROP Distribution Request Form

Please print • Retain a copy for your records

You have certain options and rights related to your Deferred Retirement Option Program (DROP) account (see additional information regarding your DROP distribution, pages 4-5). This DROP Distribution Request allows you to make your selection of the option(s) you desire for the payment of your DROP account.

The DROP funds payable to you as a plan participant (or alternate payee) may be received as a lump sum cash payment, a rollover to a qualified plan, or a combination lump sum cash payment and rollover. No portion of a DROP account may be left on deposit with MERS.

In order to comply with the distribution election(s) you have requested, **MERS must receive a completed form and documentation requested no later than 60 calendar days after the DROP termination date.** The form and documentation required include, but are not limited to, the following:

- DROP Distribution Request Form (F-56)
- All documentation pertaining to a division of community property i.e., Dissolution Judgment, DRO, etc. (if applicable)

MERS strongly encourages you to seek financial, legal, and tax advice from professionals before submitting your DROP distribution request. MERS cannot advise you on these issues.

1. Information about you

Last name*	First name*	Last four digits of SSN*	Phone number (with area code)*

Mailing address*

City*	State*	Zip code*

Email address

Citizenship* ☐ U.S. Citizen ☐ U.S. Resident ☐ Non-resident alien (submit IRS Form W-8BEN)

Marital status* ☐ Single ☐ Married

Have you been divorced at any time following your date of employment with this employer?*

☐ **No**
☐ **Yes** — If yes, you must submit a complete copy of your Judgment of Divorce to MERS before your distribution can be processed.

Ex-spouse(s) name(s):

Employer name*

DROP termination date * (MM/DD/YYYY):

* Required field

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Last name* (please print clearly)	Last four digits of SSN*

2. Payment election

For information on early withdrawal penalties, please refer to pages 4-6.

☐ **Lump sum payment made to you:** Payment will be directly deposited to the account in ***part A of Section 3 below***.

☐ **Direct rollover:** Transfer to another eligible account

- ☐ Roll entire account directly over to the institution listed in ***part B of Section 3 below***. My non-taxable portion shall be placed in an after-tax account, separate from the taxable portion. *I have contacted the financial institution and confirmed that it will accept the rollover and account for my after-tax dollars.* (No taxes will be withheld.)
- ☐ Roll taxable portion over to the institution listed in ***part B of Section 3 below***. Pay non-taxable portion to me to the account in ***part A of Section 3 below***.
- ☐ Roll $_______________ or ______% of the taxable portion over to the institution listed in ***part B of Section 3 below***. Pay remainder to me to the account in ***part A of Section 3 below*** (taxable and non-taxable) and withhold applicable income taxes.

3. Account information

A. Your bank account: For payments being made to you.

☐ Checking account ☐ Savings account

Financial Institution name	Phone

ABA routing number (9 digit)	Account number

B. Eligible rollover account: For funds being rolled directly into an eligible retirement plan.

Financial Institution/Company or Trustee name of eligible qualified plan or IRA	Phone

Address	City	State	Zip

Individual account number	Financial Institution's Federal tax ID

Type of account

☐ 401(a) ☐ 401(k) ☐ 403(a) ☐ 403(b) ☐ IRA – 408(a) or 408(b) ☐ Roth IRA or 408(a) ☐ 457(b) ☐ Other ____________________

4. State income tax withholding

MERS will withhold the mandatory Michigan income tax rate from your distribution, unless one of the following applies:

☐ Check here if all payments are exempt because you (or your spouse if joint filers) were born before 1946, and you do not want any amount withheld.

☐ Check here if you qualify for any other exemption shown on the MI W-4R and want your withholding calculated using those exemptions. **Complete Form MI W-4R and submit along with this form.**

☐ Check here if you wish to opt out of tax withholding. **Complete Form MI-W4R, check the box on line 1, and submit along with this form.** *Note:* If you (and your spouse if joint filers) opt to have no Michigan tax withheld, it may result in a balance due on your MI-1040 as well as penalty and/or interest.

☐ Check here if you are not subject to Michigan Income Tax because your primary legal state of residence is __________________. MERS will withhold the amount required by that state.

You may obtain more information on Michigan tax withholding, including Form MI W-4P and instructions at www.michigan.gov/taxes.

Defined Benefit DROP Distribution Request Form

Last name* (please print clearly)	Last four digits of SSN*

5. Federal income tax withholding *(instructions pages 4-5)*

1. Your federal withholding rate is determined by the type of payment you receive.
For an eligible rollover distribution, the default withholding rate is 20%. You can choose a rate greater than 20% by entering the rate on line 2. You may not choose a rate less than 20%.

2. Complete this line if you would like a rate of withholding that is different from the default withholding rate. See the instructions following and the Marginal Rate Tables on the next page for additional information. Enter the rate as a whole number (no decimals)................................▶ $______________

6. Required signatures

By signing this *DROP Distribution Request Form*, I affirm that I have read it carefully and understand the selection I have made. I acknowledge that prior to signing this form, I had the opportunity to ask questions and obtain additional information from MERS regarding the effect of my election. In addition, I have read the attached DROP Distribution Summary and Special Tax Notice and understand the tax consequences of a transfer or rollover (if applicable). I understand that I have the right to consider my election options for 30 days before making the above distribution election. I also understand that I am waiving this right if I sign below within 30 days of receiving this form. I understand that once the DROP period ends, MERS will transfer the amount credited to the DROP account to which I am entitled according to the payment instructions provided here. If for some reason, MERS is unable to process according to those instructions, MERS is authorized to establish a Deemed IRA in my name and process the DROP lump sum amount as an eligible rollover distribution. The lump-sum resulting from the DROP period is subject to all applicable taxes and withholding requirements, subject to its distribution in the form of an eligible rollover distribution (see disclosures). I have voluntarily terminated employment prior to the end of my DROP period. I understand that the DROP benefit I will receive shall be equal to 80% of the amount credited to the DROP account.

Participant signature*	Date (mm/dd/yyyy)

Data collected on this form will be used by MERS staff for identification and documentation only.

You can submit this form online!

If you already have a myMERS account, you can upload this form online. Look for the **File Upload** feature to easily and securely submit completed forms.

You may also mail completed form to:

Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, MI 48917

Fax: 517.703.9706

General Instructions for Federal Tax Withholding Section

This section replicates information on IRS Form W-4R and is required by the IRS to be included in its entirety as part of this form. For additional information, go to www.irs.gov/FORMW4R.

Purpose of this section is to have payers withhold the correct amount of federal income tax from your nonperiodic payment or eligible rollover distribution from your MERS Defined Benefit pension. See the following pages for the rules and options that are available for each type of payment. For more information on withholding, see IRS Pub. 505, Tax Withholding and Estimated Tax.

Caution: If you have too little tax withheld, you will generally owe tax when you file your tax return and may owe a penalty unless you make timely payments of estimated tax. If too much tax is withheld, you will generally be due a refund when you file your tax return. Your withholding choice (or an election not to have withholding on a nonperiodic payment) will generally apply to any future payment from the same plan or IRA. Submit a new IRS Form W-4R if you want to change your election.

Nonperiodic payments—10% withholding. MERS must withhold at a default 10% rate from the taxable amount of nonperiodic payments unless you enter a different rate on line 2 of the Federal Tax Withholding section. Note that the default rate of withholding may not be appropriate for your tax situation. You may choose to have no federal income tax withheld by entering "-0-" on line 2. See the specific instructions below for more information. You are not permitted to elect to have federal income tax withheld at a rate of less than 10% (including "-0-") on any payments to be delivered outside the United States and its possessions.

Note: If you don't complete this section, you don't provide a Social Security Number, or the IRS notifies MERS that you gave an incorrect Social Security Number, then MERS must withhold 10% of the payment for federal income tax and can't honor requests to have a lower (or no) amount withheld.

Eligible rollover distributions—20% withholding. Distributions you receive from qualified retirement plans (for example, 401(k) plans and section 457(b) plans maintained by a governmental employer) or tax-sheltered annuities that are eligible to be rolled over to an IRA or qualified plan are subject to a 20% default rate of withholding on the taxable amount of the distribution. You can't choose withholding at a rate of less than 20% (including "-0-"). Note that the default rate of withholding may be too low for your tax situation. You may choose to enter a rate higher than 20% on line 2. Don't give Form W-4R to your payer unless you want more than 20% withheld.

Note that the following payments are not eligible rollover distributions: (a) qualifying "hardship" distributions, and (b) distributions required by federal law, such as required minimum distributions. See *IRS Pub. 505* for details. See also Nonperiodic payments—10% withholding above.

Payments to nonresident aliens and foreign estates. Do not use this section for federal income tax withholding. See *IRS Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities*, and *IRS Pub. 519, U.S. Tax Guide for Aliens*, for more information.

Tax relief for victims of terrorist attacks. If your disability payments for injuries incurred as a direct result of a terrorist attack are not taxable, enter "-0-" on line 2. See *IRS Pub. 3920, Tax Relief for Victims of Terrorist Attacks*, for more details.

2023 Marginal Rate Tables for determining federal tax withholding

You may use these tables to help you select the appropriate withholding rate for this payment or distribution. Add your income from all sources and use the column that matches your filing status to find the corresponding rate of withholding. See following pages for more information on how to use this table.

Single or Married filing separately		**Married filing jointly or Qualifying surviving spouse**		**Head of household**	
Total income over—	**Tax rate for every dollar more**	*Total income over—*	**Tax rate for every dollar more**	*Total income over—*	**Tax rate for every dollar more**
$0	**0%**	$0	**0%**	$0	**0%**
13,850	**10%**	27,700	**10%**	20,800	**10%**
24,850	**12%**	49,700	**12%**	36,500	**12%**
58,575	**22%**	117,150	**22%**	80,650	**22%**
109,225	**24%**	218,450	**24%**	116,150	**24%**
195,950	**32%**	391,900	**32%**	202,900	**32%**
245,100	**35%**	490,200	**35%**	252,050	**35%**
591,975*	**37%**	721,450	**37%**	598,900	**37%**

*If married filing separately, use $360,725 instead for this 37% rate.

Specific Instructions for Federal Tax Withholding Section

Line 1. Check your anticipated filing status. This will determine the standard deduction and tax rates used to compute your withholding.

Line 2. More withholding. If you want more than the default rate withheld from your payment, you may enter a higher rate on line 2.

Less withholding (nonperiodic payments only). If permitted, you may enter a lower rate on line 2 (including "-0-") if you want less than the 10% default rate withheld from your payment. If you have already paid, or plan to pay, your tax on this payment through other withholding or estimated tax payments, you may want to enter "-0-".

Suggestion for determining withholding. Consider using the Marginal Rate Tables above to help you select the appropriate withholding rate for this payment or distribution. The tables are most accurate if the appropriate amount of tax on all other sources of income, deductions, and credits has been paid through other withholding or estimated tax payments. If the appropriate amount of tax on those sources of income has not been paid through other withholding or estimated tax payments, you can pay that tax through withholding on this payment by entering a rate that is greater than the rate in the Marginal Rate Tables.

The marginal tax rate is the rate of tax on each additional dollar of income you receive above a particular amount of income. You can use the table for your filing status as a guide to find a rate of withholding for amounts above the total income level in the table.

To determine the appropriate rate of withholding from the table, do the following. Step 1: Find the rate that corresponds with your total income not including the payment. Step 2: Add your total income and the taxable amount of the payment and find the corresponding rate.

If these two rates are the same, enter that rate on line 2. (See Example 1 below.)

If the two rates differ, multiply (a) the amount in the lower rate bracket by the rate for that bracket, and (b) the amount in the higher rate bracket by the rate for that bracket. Add these two numbers; this is the expected tax for this payment. To get the rate to have withheld, divide this amount by the taxable amount of the payment. Round up to the next whole number and enter that rate on line 2. (See Example 2 below.)

If you prefer a simpler approach (but one that may lead to overwithholding), find the rate that corresponds to your total income including the payment and enter that rate on line 2.

Examples. Assume the following facts for Examples 1 and 2. Your filing status is single. You expect the taxable amount of your payment to be $20,000. Appropriate amounts have been withheld for all other sources of income and any deductions or credits.

Example 1. You expect your total income to be $60,000 without the payment. Step 1: Because your total income without the payment, $60,000, is greater than $58,575 but less than $109,225, the corresponding rate is 22%. Step 2: Because your total income with the payment, $80,000, is greater than $58,575 but less than $109,225, the corresponding rate is 22%. Because these two rates are the same, enter "22" on line 2.

Example 2. You expect your total income to be $42,500 without the payment. Step 1: Because your total income without the payment, $42,500, is greater than $24,850 but less than $58,575, the corresponding rate is 12%. Step 2: Because your total income with the payment, $62,500, is greater than $58,575 but less than $109,225, the corresponding rate is 22%. The two rates differ. $16,075 of the $20,000 payment is in the lower bracket ($58,575 less your total income of $42,500 without the payment), and $3,925 is in the higher bracket ($20,000 less the $16,075 that is in the lower bracket). Multiply $16,075 by 12% to get $1,929. Multiply $3,925 by 22% to get $863.50. The sum of these two amounts is $2,792.50. This is the estimated tax on your payment. This amount corresponds to 14% of the $20,000 payment ($2,792.50 divided by $20,000). Enter "14" on line 2.

Additional Information Regarding Defined Benefit DROP Distribution Request

DROP Distribution Summary:

Introduction

Municipal Employees' Retirement System (MERS) is required to provide you with this Summary under Section 402(f) of the Internal Revenue Code. Distributions from your DROP account may have significant federal and state income tax consequences for you. The information within this Summary merely summarizes the federal (not state) tax rules, which might apply to your DROP payment; more detailed information is included in the "Special Tax Notice Regarding Your Rollover Options." The relevant federal income tax laws are complex, contain many conditions and exceptions that are not included in this Summary, and are modified frequently. This notice is not intended to be a complete description of all of the federal income tax consequences of distributions to you from your DROP account and of all the requirements that must be met to qualify under various tax rules. This Summary is not intended to give personal tax advice. Before you leave DROP, we encourage you to consult with your personal tax advisor. More detailed tax information is contained in IRS Publication 575, *Pension and Annuity Income*, which is available from your local IRS office, on the web at *www.irs.gov*, or by calling 1-800-TAX-FORMS.

Summary of DROP Distribution Options

You will have sixty (60) days from the date you exit DROP to submit the DROP Distribution Request Form to MERS. There are three ways in which you may receive the funds in your DROP account: 1) you may receive it as a lump sum paid to you; 2) you may roll it over to a traditional Individual Retirement Account ("IRA"), a Roth IRA, or to a qualified plan; or 3) you may elect a partial rollover and a lump sum distribution of the balance of your DROP account. Additional tax information regarding these options are provided in the Special Tax Notice Regarding Your Rollover Options provided to you. You should review these options with your financial, legal and/or tax professional to select a distribution election for both your taxable and non-taxable DROP funds.

NOTE: Failure to meet the 60-day deadline to complete the forms and documentation required will result in distribution of your DROP account into a default account whereby your payment will be subject to all applicable taxes as required by law. You still will have certain rollover rights related to a lump-sum distribution in this situation (See section under the Special Tax Notice titled "Rollover Within 60 Days After Receiving a Lump Sum Payment"). You should consider all of your options with your financial, legal and/or tax professionals.

How after-tax contributions affect your DROP funds

If you made after-tax contributions, your DROP funds will include after-tax "basis." "Basis recovery" is the process by which your after-tax employee pension contributions are returned to you, free of taxes, as part of your pension benefits. The Internal Revenue Code includes a provision that allows you to recover your after-tax contributions using a basis recovery method. When you exit DROP, you will be subject to this basis recovery method which provides that you will:

- Recover pre-1987 after-tax contributions entirely from the lump sum DROP distribution
- Have any post-1986 after-tax contributions allocated pro-rata between the lump sum DROP distribution and your ongoing monthly pension annuity under a formula developed by the IRS.

Lump sum distribution

- By "lump sum," we mean having a portion of or your entire DROP account balance distributed in the form of a single payment to you by direct deposit to the checking/savings account you select.
- If you take your entire distribution as a lump sum, it will be less any applicable federal and state tax withholdings required by law.
- The full amount of your taxable distribution will be taxed in the year of distribution (unless you roll it over within 60 days – see section under "Rollover Within 60 Days After Receiving A Lump Sum Payment").
- Depending on your age, whether you were employed as a public safety officer and whether you are separating from service, if you are less than 59 ½ years old (see Section under the Special Tax Notice titled "If I Don't Do a Rollover, Will I Have to Pay the 10% Additional Income Tax on Early Distributions?"), your distribution may be subject to an early withdrawal penalty (unless you roll it over within 60 days – see section under "Rollover Within 60 Days After Receiving A Lump Sum Payment").

Rollover distribution

- By rollover, we mean having your DROP distribution paid directly into a traditional IRA, Roth IRA, or an eligible employer plan that agrees to accept your rollover.
- Whatever taxable portion of your distribution you rollover directly to a traditional IRA or eligible employer plan will not be taxed in the current year, will not be subject to mandatory income tax withholding, and will not be subject to early withdrawal penalties. These rules differ for Roth IRA's—see the "Special Tax Notice Regarding Your Rollover Options" for more information or consult your tax advisor.

- Your taxable rollover distribution will be taxed later when you take distribution from the traditional IRA or eligible employer plan. Roth IRA's are subject to different tax rules—see the "Special Tax Notice Regarding Your Rollover Options" for more information.
- You may obtain further information concerning rollovers from your tax advisor.

Rollover within 60 days after receiving a lump sum payment

If you don't request a direct rollover, you can still rollover your distribution within 60 days after receipt into a traditional IRA or an eligible employer plan and avoid taxation, including early withdrawal penalties, in the year of distribution on the amount that is rolled over. Because this distribution is first being paid to you, MERS is required to withhold 20% from the distribution for purposes of federal taxes (See Section under the Special Tax Notice titled "How Do I Do a Rollover?"). Then, in order to fully accomplish the rollover, you must pay into the IRA or eligible employer plan the full amount of your distribution (including the amount withheld by MERS for taxes). This would require you to contribute additional funds at the time of deposit. Any portion not rolled over within 60 days will be subject to taxation in the year of distribution. See your tax advisor for further information.

Important tax information for spouse or former spouse of participant

The above information is addressed to the Participant, but the same rollover and mandatory 20% federal tax withholding rules set forth above also apply to:

- A current or former spouse who receives funds from a DROP account based upon a domestic relations order.
- A spouse who receives funds from a DROP account due to the Participant's death.

A spouse or former spouse, however, is not subject to the early distribution penalty that applies to the participant.

Important tax information for beneficiaries other than a spouse

The above information is addressed to the Participant, but the same rollover and mandatory 20% federal tax withholding rules set forth above also apply. In the event of the Participant's death, if the beneficiary is not an opposite-sex or same-sex spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. The non-spouse beneficiary is not subject to the early distribution penalty.

You are receiving this notice because all or a portion of a payment you are receiving from MERS (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.

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.

Special Tax Notice Regarding Your Rollover Options
("Safe Harbor Explanation")

You are receiving the notice because all or a portion of a payment you will soon receive from the Municipal Employees' Retirement System (MERS) is eligible to be rolled over to an IRA or an employer plan. The notice is intended to help you decide whether to do 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 types of plan payments are described in "General Information About Rollovers." Special rules that only apply in certain circumstances are described in "Special Rules and Options." If you have received this notice electronically, you may request a paper copy from MERS at no charge to you.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?

You will be taxed on a payment from MERS 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 (unless an exception applies).

If you do a rollover to a traditional IRA or an eligible employer plan, you will not have to pay tax until you receive payments later from the IRA or plan, and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

If you do a rollover to a Roth IRA, you will be taxed on the amount rolled over (reduced by any after-tax amount). However, if you are under age 59½ at the time of the rollover, the 10% additional income tax will not apply. For more details, see the section below titled, "If you roll over your payment to a Roth IRA."

Where may I roll over the payment?

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 section 401(a) plan, section 403(b) plan, or governmental section 457(b) deferred compensation 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, MERS 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 have do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. 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. This means that, in order to roll over the entire payment in a 60-day rollover, you will have to use other funds to make up for the federal income taxes withheld by MERS. If you do not roll over the entire amount, 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 joint lives or joint life expectancies of you and your beneficiary);
- Required minimum distributions after age 70½ (if you were born before July 1, 1949), after age 72 (if you were born after June 30, 1949), or after death;
- Corrective distributions of contributions that exceed tax law limitations;
- Loans treated as deemed distributions (for example, loans in default due to missed payments before your employment ends); and
- Payments of certain automatic enrollment contributions that you request to withdraw within 90 days of your first contribution;

The Plan administrator or the payor can tell you what portion of a payment is eligible for rollover.

You can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own. The one-per-year limit does not apply to:

- rollovers from traditional IRAs to Roth IRAs (conversions)
- trustee-to-trustee transfers to another IRA
- IRA-to-plan rollovers
- plan-to-IRA rollovers
- plan-to-plan rollovers

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 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 defined benefit pension plan made after you separate from service if you are a public safety employee and you are at least age 50 in the year of 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
- Payments up to the amount of your deductible medical expenses
- Certain payments made while you were on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days
- Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.

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 from the IRA, 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:

- There is no exception for payments after separation from service that are made after age 55
- The exception for qualified domestic relations orders 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. To apply for a waiver, 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 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 calendar 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 an eligible retired public safety officer and your pension payment is used to pay for health coverage or qualified long-term care insurance

Because MERS is a governmental plan, if 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 participant of a rescue squad or ambulance crew.

The Form 1099-R that you receive from the Plan administrator will report the deducted insurance premium as taxable. If you want to take advantage of this $3,000 exclusion, you must report the amount claimed on Form 1040. The instructions to Form 1040 explain that the taxable amount received from the Plan, reduced by the amount of qualified premiums deducted and paid by the Plan (not to exceed $3,000), must be entered on line 16b of the Form 1040. Next to the entry, in the margin, you must write the letters “PSO.” This is an annual election – you will need to report the exclusion for each year in which you want to claim the exclusion.

If you are not a MERS 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 MERS 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 MERS, 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 MERS 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 orders. If you are the spouse or former spouse of the participant who receives a payment from MERS under an eligible or qualified domestic relations order, you generally have the same options 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). Payments under the eligible or qualified domestic relations order 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%, MERS 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, MERS is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover.

Unless you elect otherwise, a mandatory cashout of more than $1,000 (not including payments from a designated Roth account in the plan) will be directly rolled over to an IRA chosen by the Plan administrator or the payor. A mandatory cashout is a payment from a plan to a participant made before age 62 (or normal retirement age, if later) and without consent, where the participant's benefit does not exceed $5,000 (not including any amounts held under the plan as a result of a prior rollover made to the plan).

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

NOTICE PERIOD

Generally, payment cannot be made by MERS until at least 30 days after you receive this notice. Thus, you have at least 30 days to consider whether or not to have your payment rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your payment will then be processed in accordance with your election as soon as practical after it is received by MERS.

FOR MORE INFORMATION

MERS cannot give you tax advice. We urge you to consult with a professional tax advisor before taking a payment from MERS. 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.