

# PREPARING TO TERMINATE DROP

If you work until your original Deferred Retirement Option Program (DROP) termination date, the Division of Retirement will mail you your DROP Termination Packet approximately 90 days prior to your last day of employment.

If your employment ends before your original DROP termination date, it is important that either you or your employer contact the Division of Retirement as soon as possible so you can receive your DROP Termination Packet in a timely manner. The Division of Retirement can be contacted via phone, mail, fax, or email to report your new DROP termination date.

How to Contact the Division of Retirement	
<b>Mailing Address:</b> Division of Retirement P.O. Box 9000 Tallahassee, FL 32315-9000	<b>Toll-free Phone:</b> 844-377-1888 <b>Local Phone:</b> 850-907-6500 <b>T.T.D. Phone:</b> 800-955-8771 <b>Fax:</b> 850-410-2010 <b>Email:</b> <a href="mailto:retirement@dms.myflorida.com">retirement@dms.myflorida.com</a>

If you have created your FRS Online account and selected “Electronic” as your communication preference, this packet will be uploaded to the inbox of your account instead of mailed to you. You may access your FRS Online account to log in or create an account by clicking [here](#).

What To Expect In Your DROP Termination Packet
<ul style="list-style-type: none"><li>• Cover letter explaining the process.</li><li>• Form DP-TERM, DROP Termination Notification – to be completed by you and your employer’s authorized personnel staff to certify your employment termination.</li><li>• Form DP-PAYT, Selected Payout Method - to choose your DROP distribution method. You have three choices for the distribution of your DROP benefits:<ul style="list-style-type: none"><li>○ Lump sum – less 20 percent tax withholding. The DROP payment is mailed directly to you. (Any portion of your payout that is taken as a lump sum prior to the year that you reach age 55 may incur an additional 10 percent tax penalty.)</li><li>○ Direct rollover – no tax withholding. The DROP rollover payment is mailed directly to the custodian(s) of your selected qualified plan.</li><li>○ Combined partial lump sum and direct rollover- the lump sum portion will be subject to the 20 percent tax withholding.</li></ul></li><li>• Information sheet from the FRS Investment Plan.</li><li>• Direct Deposit information sheet.</li><li>• Form DFS-A1-26R, Direct Deposit Authorization Form – this form can be used to set up your direct deposit or you may also set up your direct deposit by signing in online.</li><li>• Special Tax Notice (see Pages 3 - 5).</li><li>• Form DP-JOINT (Option 4 participants only).</li></ul>

## What Happens Next

- Upon receipt of the completed Form DP-TERM, your name will be added to the Retired Payroll and your first monthly benefit will be dated as the last state business day of the month following your termination date.
- Your DROP payout will be processed after receipt of the completed Form DP-PAYT and will be mailed the month following termination. **NOTE:** If you fail to return a completed Form DP-PAYT to the Division of Retirement within 60 days after your termination date, a lump sum distribution, less 20 percent federal tax withholding, will be mailed to you at any time after the 60 day period.
  - Lump sum or partial lump sum checks are mailed directly to you as they cannot be direct deposited.
  - Rollover checks are mailed directly to the custodian(s) listed on your Form DP-PAYT.
  - You will receive a letter notifying you when the payout has been processed and mailed.

## Retired Payroll Information:

After your name has been added to the Retired Payroll, you will receive a Retiree Packet in the mail about the same time that you are to receive your first monthly retirement check. This packet is automatically mailed to you even if you have previously submitted one or all of the forms listed below.

## What to Expect in Your Retiree Packet

- An information letter.
- A Form W-4P "Withholding Certificate for Pension Payments".
- A Form HIS-1 "Health Insurance Subsidy" application (This program provides additional money to your monthly retirement benefit to help cover some of the cost of health insurance coverage).
- A Form DFS-A1-26R, Direct Deposit Authorization Form – this form can be used to set up your direct deposit or you may also set up your direct deposit by signing in online. (For State Employees already enrolled in Direct Deposit with the Department of Financial Services, no additional authorization is needed for the direct deposit of your retirement benefit, unless you cancelled or changed your previous authorization). This form can be downloaded [here](#) and must be mailed to the address on the form with a copy of a valid driver's license or government issued identification.

# **SPECIAL TAX NOTICE**

## **DEFERRED RETIREMENT OPTION PROGRAM (DROP) WITHDRAWAL AND PRE-TAXED REFUNDS**

### ***WHAT'S INSIDE***

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### **GENERAL ROLLOVER INFORMATION**

#### ***Rollover Eligible Plans and Distributions***

You are receiving this notice because all or a portion of your DROP payment from the Florida Retirement System (FRS) Pension Plan is eligible to be rolled over into one of the eligible Plans listed below:

- IRA: Traditional, Roth (non-designated), Inherited Traditional or Roth, and SEP
- Eligible Employer Plans: 457(b) government Plans, pre-taxed 403(b) and qualified plans

FRS **cannot** make a DROP payment until you have terminated your FRS employment and for at least 30 days after you receive this notice. After you receive this notice, you have 30 days to select your payout option. However, you may waive this notice period by indicating your payout method on the required payout form. Your distribution will be processed accordingly as soon as possible after your employment ends.

Only the FRS DROP payment and pre-taxed refunds are eligible to be rolled over, not the FRS distributions listed below:

- Monthly FRS Plan benefit payments, including continued beneficiary payments
- Required minimum distributions after age 70½ (or after death).

#### ***Payment Options***

The required FRS DROP Selected Payout Method Form (DP-PAYT) has three payout options. You can select a direct rollover into an eligible plan, select a lump sum payment, or select a partial lump sum payment and to roll over the remaining balance.

A direct rollover election means the FRS will send the DROP payment directly to your selected eligible plan. Once the amount is rolled over, it becomes subject to the receiving plan's tax rules.

A lump sum election means the FRS will send the DROP payment directly to you, **minus** 20 percent as required for federal withholding taxes.

A partial lump sum election means the FRS will send a portion of your total DROP balance as a lump sum to you, **minus** the 20 percent federal withholding taxes. FRS will send the remaining portion as a direct rollover to an eligible plan, subject to that plan's tax rules.

If, after you receive a lump sum DROP payment, you decide to roll some or all of this payment into an eligible plan, you have 60 days from the payment date to complete the rollover. You should roll over the entire pre-taxed (100 percent) **gross** amount into a **pre-taxed** eligible plan, or you will have to pay federal income taxes on the difference. This means you would have to pay the 20 percent you did not receive due to the required lump sum withholding taxes. However, this amount may be recovered when you file your annual tax return.

**For example:** Let's say your gross (pre-tax) DROP balance is \$10,000 and you choose to have the FRS pay the entire amount directly to you as a lump sum payment. The FRS withholds 20 percent, or \$2,000, and you'll receive a check for the **net** (after-tax) amount of \$8,000. If you then choose to roll your DROP distribution into a pre-tax eligible plan (taxed upon taking a distribution), to avoid any income taxes, you'll need to deposit the entire gross (pre-tax) amount of \$10,000. Any amount less than the gross (original) DROP balance is considered taxable income in the year the payment was made. Also, you may be subject to an additional 10 percent tax for early distributions (see below). Depending on your annual tax return calculations, the IRS may refund you the 20 percent tax withholdings.

Any **after-tax** employee contributions made to the FRS Plan are not taxable and will be paid directly to you, in accordance with the IRS' Simplified Method calculation, formerly referred to as the Simplified General Rule (SGR).

**Note:** If you miss the 60-day rollover deadline, the IRS may waive the deadline under certain extraordinary

circumstances, such as external events preventing you from completing the rollover by the 60-day deadline. To apply for a waiver, you must file a private letter ruling request with the IRS, which includes a nonrefundable user fee. For more information see IRS Publication 590, Individual Retirement Arrangements (IRAs).

### **Tax Affects**

A direct rollover of your FRS DROP payment is normally tax free, unless you choose to roll it into an after tax eligible plan (Roth IRA – see below). For all direct rollover selections, the FRS withholds 0 percent for taxes. For a lump sum payment, the FRS will subtract 20 percent for federal withholding taxes, even if you choose to roll it over into an eligible plan within 60 days of the payment.

In addition, if you are younger than age 59½, your DROP payout is considered an **'early distribution.'** This means you are still responsible for the additional 10 percent early distribution penalty paid to the IRS, even though your rollover election may not have withheld any taxes. This is the case unless one of these exceptions applies:

- Payments made after you separate from service if you will be at least age 55 when you separate;
- Payments made after you separate from service if you are a public safety employee and you are at least age 50 when you separate;
- Payments that start after you separate from service if paid at least once a year 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 after your death;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a Qualified Domestic Relations Order (QDRO).

### **Rollover into a Roth IRA**

You can roll your FRS DROP payment over to an after-tax Roth IRA (excluding designated Roth accounts) and choose 0 percent (the default), 10 percent or 20 percent federal withholding taxes on the DP-PAYT Form. Early distribution penalties will **not** apply unless you take the amount rolled over out of the Roth IRA within five years, starting from January 1 of the year you made the rollover.

Starting in 2011, the IRS allows you to spread out the federal taxes you owe for payments rolled into a ROTH IRA during 2010 over a two-year period. 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 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 five years. This five-year rule begins January 1 of the year for you first contribute to a Roth IRA.

You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information see IRS Publication 590, Individual Retirement Arrangements (IRAs).

## **SPECIAL RULES**

### ***Required Minimum Distribution (RMD)***

If you turned 70½ years of age before terminating DROP employment, the FRS will pay you the RMD mandated by the IRS. Your RMD amount is your pre-taxed FRS DROP accumulated balance minus the required 10 percent federal income withholding taxes. Minimum distributions do not apply to members while participating in the FRS DROP.

### ***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.

### ***Payments under a Qualified Domestic Relations Order (QDRO)***

If you are the spouse or former spouse of the participant who receives a DROP payment from the FRS under a QDRO, 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 QDRO are not subject to the 10 percent additional income tax on early distributions.

### ***Nonresident Alien***

If you are a nonresident alien and do not select a direct rollover of your DROP payments to a U.S. IRA or U.S. employer plan, then instead of withholding the standard 20 percent, the FRS Plan is required to withhold 30 percent of the payment for federal income taxes. For more information see IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

## **BENEFICIARY INFORMATION**

### ***Payments to Surviving Spouse***

If your spouse is a deceased participant, and you as survivor receive the DROP payment from the FRS, you have the same rollover options that were available to

your spouse (described previously in this document). In addition, if you choose to roll over 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. Payments made to you before you are age 59½ will be subject to the 10 percent 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 percent additional income tax on early distributions, but will be subject to the required minimum distribution rules based on the member's date of birth.

### ***Payments to Other Beneficiaries***

If you are entitled to a DROP payment from the FRS because of the participant's death and you are a designated beneficiary other than a surviving spouse, you may roll over the benefit directly to an **inherited** IRA, or receive a lump sum payment. Rollovers to an inherited IRA are subject to the required minimum distribution rules.

If you choose not to roll over the DROP distribution, the amount will be taxed in the same manner described elsewhere in this notice. However, the 10 percent additional income tax on early distributions and the special rules for public safety officers **do not** apply. 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.

## **FOR MORE INFORMATION**

Please contact a professional tax advisor before electing a payment from the FRS.

You can find more information in the publications listed below that are available at your local IRS office, on the Web at [www.irs.gov](http://www.irs.gov) or by calling 1-800-TAX-FORM (829-3676).

- IRS Publication 575, Pension and Annuity Income
- IRS Publication 590, Individual Retirement Arrangements (IRAs)
- IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans)

Please visit our Web site for additional information at: [www.frs.myflorida.com](http://www.frs.myflorida.com).

You can reach the Division directly toll free at (844) 377-1888, or locally at (850) 907-6500.

You can also write to the Division at:

Florida Retirement System Pension Plan  
Division of Retirement  
P.O. Box 9000  
Tallahassee, FL 32315-9000