



Montana Teachers' Retirement System FACT SHEET: Withdrawing TRS Membership

To withdraw from TRS means to give up your membership rights and interests in the retirement system, including your right (or your beneficiaries' right) to receive a future benefit from TRS. If you choose to withdraw, you forfeit all creditable service you have accrued with TRS up to the time of your withdrawal.

Note: If you are a Tier 1 member (your TRS membership began prior to July 1, 2013) at the time of withdrawal and later you return to work in a position reportable to TRS, you will return as a Tier 2 member – even if you redeposit the entire amount of your refund, plus interest, to reinstate your previously withdrawn creditable service.

This Fact Sheet will answer questions you may have about withdrawing TRS membership.

What gets paid to me when I withdraw?

When you withdraw TRS membership, TRS will refund your entire member account balance to you. A partial withdrawal is not allowed.

Your member account balance includes all contributions withheld from your compensation for service in a TRS-reportable position and remitted directly to TRS by your employer. Such contributions are withheld from your pay on a tax-deferred basis. However, your member account balance may also include taxed contributions that you paid directly to TRS, such as to purchase service.

Will my refund from TRS include any of my employer's contributions?

No. Employer contributions are paid directly to the retirement system to fund all benefit payments and administrative expenses of the system. Your employer's TRS contributions are not credited to your member account and are never payable to you if you elect to withdraw from TRS.

When will I be eligible to withdraw from TRS?

TRS is a mandatory participation retirement system, which means you must remain an active member of the retirement system for as long as you provide service in any position reportable to TRS. You are eligible to withdraw TRS membership only if you have terminated employment in all such positions.

Employment is not considered to be terminated until your employer has paid your final wages and any other amounts owed to you, which may include accrued annual and sick leave balances. If you have a contractual right to return to TRS-reportable employment (such as after a period of paid or unpaid leave or after the summer break), you have not completely severed the employment relationship with your TRS employer and are not eligible to withdraw.

Note: If you are married at the time you apply for withdrawal, but a divorce action is pending, TRS will require additional supporting documentation to confirm whether you are eligible. See "Does my spouse have to sign my withdrawal application?" later in this document.

Does my vesting status matter if I want to withdraw?

If you are eligible to withdraw, you may do so regardless of your status as a vested or non-vested member of TRS. However, you should carefully examine what you are giving up by making the decision to withdraw.

If you are vested (i.e., you have at least 5 full years of creditable service):

You are eligible to receive a lifetime retirement benefit either now or in the future, depending on your age. If you apply for withdrawal as a vested member, TRS will provide an estimate of the monthly benefit you would forfeit by withdrawing. The cumulative dollar value of that monthly benefit will almost certainly exceed your

member account balance after only five years. For this reason, TRS strongly advises that you seek competent financial advice and consult with your family to decide whether to withdraw now and receive only a refund of your member account balance or to apply for a lifetime retirement benefit instead.

If you are non-vested (i.e., you have less than 5 full years of creditable service):

Because you are not eligible for a current or future retirement benefit, it may be in your best interest financially to withdraw and roll your funds into another retirement plan or account or invest them elsewhere.

However, if there is a chance you might return to TRS-reportable employment in the future – especially if you are nearly vested – you should consider leaving your contributions on account with TRS. Then, any service you earn in the future would be added to your accrued creditable service. If you are now a Tier 1 member and you leave your contributions on account with TRS, you will retain your Tier 1 status.

Will TRS audit my employment history or my creditable service balance when I withdraw?

Not necessarily. When a non-vested member withdraws, TRS refunds the account balance and records the amount of creditable service forfeited by the member as of that date but does not perform an audit. If you suspect your employer has reported your service to TRS incorrectly – especially if you think you might be vested if not for the error – you should notify TRS right away, before you decide to withdraw.

How do I apply for withdrawal?

If you have already terminated all TRS-reportable employment (or if your termination date is no more than 30 days in the future), you are eligible to apply for withdrawal. You may be able to apply online in *My TRS*, the secure member portal, or you can call TRS to request a withdrawal application form.

Note: Certain TRS members who are otherwise eligible to withdraw may be prevented from applying online. This includes members whose account balance includes after-tax contributions, those whose address is outside the U.S., and those who may be at risk of violating IRS regulations on required minimum distributions (see the TRS Fact Sheet *Required Minimum Distributions*, available at trs.mt.gov). These members must call TRS to request a paper withdrawal application form.

Does my spouse have to sign my withdrawal application?

Your spouse's signature is not required on your application for withdrawal. However, TRS requires you to certify your marital status at the time you apply for withdrawal.

If you are married and a divorce is pending at the time you apply, TRS will require you to submit a signed and notarized *Spouse's Authorization for Withdrawal Pending Divorce* – a form provided by TRS that must be completed by your spouse – or a certified copy of an order, issued by the court in which your divorce is pending, which authorizes your withdrawal. If this additional documentation is not received within 60 days of your withdrawal application date, TRS will void your application.

Does a family law order on my account affect my withdrawal?

Yes. A family law order (“FLO”) that has been submitted to and approved by TRS may require TRS to pay all or a portion of your member account balance to your Alternate Payee upon your withdrawal. If your Alternate Payee is your ex-spouse and your divorce decree requires a distribution to that individual, but a FLO has not been submitted to and approved by TRS at the time of your withdrawal, you will be individually responsible to comply with the terms of your divorce decree.

If you are unsure whether there is an approved FLO on your account, or if you would like information regarding the amount of any distribution to your Alternate Payee pursuant to an approved FLO, please contact TRS.

Will my refunded member account balance be taxed when paid out by TRS?

That largely depends on the distribution option you elect on your application for withdrawal. If you decide to apply, TRS will provide a *Special Notice of Rollover Options and Federal Tax Withholding on Eligible Rollover Distributions* ("Special Notice"), which explains your distribution options and tax implications of withdrawal.

If your member account balance at the time of application is **less than \$200.00**, it is not an eligible rollover distribution and TRS will issue a lump sum payment directly to you with no tax withholding. However, if your account balance subsequently increases to \$200.00 or more due to additional monthly interest and/or contributions remitted by your employer, TRS will withhold 20% federal tax from your lump sum payment.

If your member account balance at the time of application is **\$200.00 or more**, it is an eligible rollover distribution. This means you may avoid having TRS withhold federal tax from your distribution by directly rolling the funds into another eligible retirement plan or account. You will elect one of the following distribution options at the time you apply for withdrawal:

- A **direct rollover**
- A **lump sum payment** directly to you (minus 20% federal tax withholding), or
- A **combination** of a direct rollover and a lump sum payment (minus 20% federal tax withholding on the lump sum portion).

Penalty on early distributions. If you elect to receive any portion of your withdrawal as a lump sum payment and you are under age 59 ½ at the time TRS processes your application, you may be subject to an additional 10% penalty on early distribution of tax-deferred contributions, to be applied at the time you file your tax return. TRS does not automatically withhold the 10% additional income tax.

IRS Form W-4R required to withhold more than 20%. If you wish, you may direct TRS to withhold more than (but not less than) 20% federal income tax from any lump sum distribution by completing Form W-4R, which is available on the IRS website (www.irs.gov).

Taxed contributions. If your member account balance includes contributions you made to TRS on an after-tax basis, TRS will not withhold additional tax from those dollars upon withdrawal. However, any interest accrued on those contributions is taxable.

Rollover to a Roth IRA. You may request a direct rollover to a Roth IRA. However, the distribution will be taxable to you in the year of the rollover and TRS will not withhold any amount for taxes.

Additional information about direct rollovers is provided later in this document.

If I elect a lump sum payment, how will TRS issue it?

If you elect to receive any portion of your member account balance as a lump sum payment, you will choose one of two payment methods:

- Paper check, to be sent by regular mail to the mailing address you provide on your application; or
- Direct deposit to a U.S.-based checking account of which you are a named owner. If you apply for withdrawal using TRS's paper application, you will be required to attach a voided personal check. TRS cannot make electronic deposits to banks outside the U.S.

What requirements and limitations will apply if I elect a direct rollover?

You may elect a direct rollover of all or a portion of your member account balance to another plan or account (your "Receiving Plan"), so long as:

- The Receiving plan is eligible and willing to accept a rollover distribution from TRS, which is an IRS-qualified defined benefit pension plan under section 401(a) of the Internal Revenue Code ("IRC");
- The Receiving Plan is a tax-qualified plan/account under 401(a), 401(k), 403(a), 403(b), 457(b), or is an IRA, Roth IRA, a SEP IRA or a SIMPLE IRA that has been in effect for at least two years;
- The Receiving Plan is willing to receive the types and amounts of contributions as directed by you on your application for withdrawal; and
- You are the sole owner of the account into which funds will be rolled over.

Note: If your TRS member account balance includes any **taxed** contributions, you may elect to take those contributions as a lump sum payment with no additional tax withholding or penalty. You may instead elect to include your taxed contributions in a direct rollover of your **entire** account balance, so long as your Receiving Plan has confirmed to you they can legally accept and separately account for your taxed contributions.

What information will I need to provide to TRS for a direct rollover?

If you wish to do a direct rollover or combination distribution, you must contact your Receiving Plan administrator and obtain all the following information:

1. **Receiving Plan name** (your Receiving Plan administrator should provide this information).
2. **Whether the Receiving Plan will accept your entire distribution from TRS.** *Please note:*
 - If your Receiving Plan will limit your direct rollover to a specific dollar amount, you must provide this information to TRS on your application for withdrawal.
 - If your TRS member account balance includes *taxed* contributions that you wish to include in a direct rollover, you must confirm with your Receiving Plan whether they will accept and account for those contributions separately.
3. **The account number and type of account** (*e.g., IRA, 457(b)*) into which your funds will be rolled.
4. **The name to whom the rollover check should be made payable.**
 - *Note:* The "make check payable to" name is not always the same as the Receiving Plan name.
5. **The specific mailing address for your rollover check** as provided by your Receiving Plan administrator.

Important: It is your responsibility to obtain accurate information from your Receiving Plan administrator. When you elect a rollover distribution, you will be required to certify that all representations and information you have provided are true and/or have been verified by the Receiving Plan.

How long will it take to process my application for withdrawal?

By federal law, TRS must allow you 30 days to consider your decision to withdraw and/or your rollover options. For this reason, TRS imposes a **mandatory 30-day waiting period**, which begins on the date TRS receives your application for withdrawal. If you wish to revoke your application or change the distribution option you elected, you must call TRS during your 30-day waiting period.

If either or both of the following conditions apply to you, additional time may be required to process your application:

- *If you were employed in a TRS-reportable position within the last six months:* TRS will require your employer to certify your date of termination of employment and to confirm that all contributions on your final pay have been remitted to TRS. Your application cannot be processed until these steps have been completed.
- *If you have indicated on your application that you are married but a divorce is pending:* TRS will require either your spouse's written authorization to withdraw or a certified copy of a court order that authorizes you to withdraw while your divorce is pending. TRS will allow you up to 60 days to submit the required documentation.
- *Void after 60 days.* TRS may void your application if the above certification, contributions, and/or supporting documentation remain outstanding 60 days after the date on which TRS received your application. You may reapply at any time (subject to a new 30-day waiting period), so long as you remain eligible to withdraw from TRS.

TRS typically forwards your request for payment to the State of Montana's payment processing system within two weeks after the *later* of (a) the end of your 30-day waiting period or (b) receipt of any required employer certification, final contributions, and/or additional documentation, as described above. External factors such as mail transit time or bank processing time can affect the delivery of your payment.

Can I change my mind about withdrawing after TRS has processed my application?

No. Your opportunity to change your mind about withdrawing occurs before you apply for withdrawal and during your 30-day waiting period. Once TRS has forwarded your request for payment to the State of Montana's payment processing system, your election to withdraw is irrevocable.

Questions?

If you have any questions about the content of this Fact Sheet, please contact us.

Montana Teachers' Retirement System ♦ 406-444-3134 ♦ 866-600-4045 ♦ trs.mt.gov

Please Note: This Fact Sheet is intended to provide a concise, easy-to-understand summary of TRS law and policy. The actual application of TRS law will depend upon the specific circumstances and facts presented. In determining the rights and obligations of any person, TRS law will supersede any contradictory information provided in this Fact Sheet.