Special Tax Notice Regarding Plan Payments

This notice contains important information you will need before you decide how to receive your refund from the Fairfax County Employees' Retirement System, Uniformed Retirement System or Police Officers Retirement System. It explains how you can continue to defer federal income tax on your retirement savings in the Fairfax County Retirement System (the "Plan") and contains important information you will need before you decide how to receive your Plan benefits. ***The Retirement Systems cannot be held responsible for any decisions about refunds based on this information. For the answers to specific questions about an individual case, please contact a tax professional or the Internal Revenue Service.***

This notice is provided to you by staff of the Fairfax County Retirement Systems (your "Plan Administrator") because all or part of the payment that you will soon receive from the Plan may be eligible for rollover into a traditional IRA or an eligible employer plan. A rollover is a payment into an IRA or another plan that allows you to continue to postpone taxation of that benefit until it is paid directly to you. Your payment cannot be rolled over to a Roth IRA, a Simple IRA or a Coverdell Education Savings Account (formerly known as an education IRA). An "eligible employer plan" includes a plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (457 plan). Surviving spouses can rollover into a traditional IRA or an eligible employer plan while ***other beneficiaries can only rollover into a traditional IRA***. A special section of your refund application must be completed by the accepting financial institution before a rollover can be processed.

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions such as after-tax amounts. (After-tax employee contributions generally are contributions you made from your own pay that were already taxed such as contributions made before July 1, 1985 and buybacks or buy-ins of prior service.) If an employer plan accepts your rollover, the plan may restrict subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from this Plan. Check with the administrator of the plan that is to receive your rollover for specific information prior to making the rollover.

Summary

There are two ways you may be able to receive a Plan payment that is eligible for rollover:

(1) The payment can be paid to you.

or

(2) Certain payments can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit ("Direct Rollover");

If you choose a Direct Rollover:

- Your payment will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Roth IRA, a Simple IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The taxable portion of your payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan. The later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from this Plan.

If you choose to have a Plan payment made directly to you:

- You will receive only 80% of the taxable amount of the payment because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year. If you receive the payment before age 55 (or age 50 for qualified public safety employees*), you may have to pay an additional 10% tax to the IRS.

Additional 10% Tax Possible If You Are under Age 55. If you receive a payment before you reach age 55 (or age 50 for qualified public safety employees*) and you do not roll it over, then, in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax** generally does not apply to (1) payments that are paid after you separate from service with your employer during or after the year you reach age 55 (age 50 for Public Safety employees), (2) payments that are paid because you retire due to disability, (3) payments that do not exceed the amount of your deductible medical expenses. **The definition of a "qualified public safety employee" is an employee of a state or political subdivision of a state (e.g. a county) who provides police protection, firefighting services, or emergency medical services for any area of the jurisdiction. **This information is provided based on Section 72(t) of the Internal Revenue Code. Additionally, this information is provided only as general information and should not be considered as legal or tax advice. Please consult a tax professional before taking a distribution from your 401(a) Qualified Pension Plan. Additional information on federal tax treatment of distributions from retirement plans can be found on the IRS Internet site at www.irs.gov or by calling the IRS at 1-800-829-1040.*

- You can roll over all or part of the payment by paying it to your traditional IRA or to an eligible employer plan that accepts your rollover *within 60 days* after you receive the payment. The 1099R from the Retirement Systems will show that amount as taxable and you will have to submit IRS forms with your tax return to declare the amount rolled over within 60 days as not taxable. Contact IRS for more information.

  If you want to roll over 100% of the payment within 60 days to a traditional IRA or an eligible employer plan, *you must find other money to replace the 20%* of the taxable portion that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

Special Tax Treatment If You Were Born before January 1, 1936. Contact IRS for information or publications about any special treatment if you were born before 1936.

Payments that cannot be rolled over

After-tax contributions. If after-tax contributions were made to the Plan, these contributions may not be rolled over. (After-tax employee contributions generally are contributions made that were already taxed such as contributions made before July 1, 1985 and buybacks or buy-ins of prior service.) These will be paid directly to you and will not be taxable as they have already been taxed.

Direct Rollover

A Direct Rollover is a direct payment of the amount of your Plan benefits to a traditional IRA or eligible employer plan that will accept it. You can choose a Direct Rollover of all or any portion of your payment that is an eligible rollover distribution. You are not taxed on any taxable portion of your payment for which you choose a Direct Rollover until you take it out later. In addition, no income tax withholding is required for any taxable portion of your Plan benefits for which you choose a Direct Rollover. **The rollover to an eligible employer plan is not available to beneficiaries other than surviving spouses.**

Direct Rollover to a Traditional IRA. You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a traditional IRA at that institution.

Direct Rollover to an Employer Plan. ***(Available to former employees or surviving spouses only.)*** If you are employed by a new employer that has an eligible employer plan and you want a direct rollover to that plan, ask the Plan Administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount. Check with the Plan Administrator of that plan before making your decision.

Surviving Spouses and Other Beneficiaries

If you are a surviving spouse, you may choose to have the payment rolled over to a traditional IRA or to an eligible employer plan or paid directly to you. If you have the payment paid to you, you can keep it or roll it over yourself to a traditional IRA or to an eligible employer plan. Thus, you have the same choices as the employee. A beneficiary, other than a surviving spouse cannot roll over a refund to an employer plan.

If you are a surviving spouse or another beneficiary, your payment is generally not subject to the additional 10% tax, even if you are younger than age 55.

Virginia State Tax Withholding Rules

The State of Virginia requires withholding at the rate of 4% on any refunds where federal tax has been withheld unless you indicate on the attached form that you are not subject to Virginia state taxes because you are not a resident of Virginia.

Additional Information Available from the Internal Revenue Service (IRS)

You can find more specific information on the tax treatment of payments from qualified employer plans in a variety of IRS Publications.

- IRS Publication 575, *Pension and Annuity Income*
- IRS Publication 590, *Individual Retirement Arrangements*
- IRS Code - Section 72(t)(2)(A)(i)
- IRS Code - Section 72(t)(2)(A)(v) & (10)(A)
- IRS *Retirement Topic 558 – Additional Tax on Early Distributions*, www.irs.gov/taxtopics/tc558.html
- IRS Notice 2007-7 www.irs.gov/pub/irs-drop/n-07-07.pdf (Q&A-7 addresses the exclusion for qualified public safety employees.)
- Frequently Asked Questions of the IRS www.irs.gov/Retirement-Plans/Retirement-Plans-Frequently-Asked-Questions-(FAQs)-1

Contact your local IRS office, visit the IRS Internet site at www.irs.gov, or call 1-800-829-1040 for additional information or copies of the publications referenced above.

"Buy-Back" of Refund or Purchase of Prior Service Credit For Those Returning to Work with Fairfax County

An employee who terminates employment may elect to "buy-back" all previously withdrawn contributions and interest and/or prior eligible service upon return to employment with Fairfax County and participation in the Retirement System in which they were a prior participant (i.e. Employees', Police Officers, or Uniformed).

For the Employees' Retirement System, if the buy-back or purchase of service is made within the first twelve (12) months of re-employment, the interest rate charged will be the current actuarial assumption rate (presently 7.5%). If the buy-back or purchase of prior service is made after the first twelve months of re-employment, the interest rate charged will be fifteen percent (15%). All buy-backs and/or purchases must be completed within three (3) years once initiated. Buy-backs may be done through payroll deduction, a lump sum payment, or a combination of these two options.

For buy-backs in the Police Officers and Uniformed Retirement Systems, different interest rate charges and restrictions apply.

If you accept a refund of your member contributions plus interest, you forfeit all service credit in the Retirement System for that previous period of employment.