

# Leaving IPERS- Covered Employment Before Retirement

Choosing the Best Alternative for You



***I***  ***PERS***

*Working Today for Your Tomorrow*



**I**f you leave IPERS-covered employment before retirement, you can select from several alternatives when deciding what to do with your IPERS account. This booklet describes the alternatives and provides information to help you make the right choice for you.



*About 89 percent of the land area in Iowa is farms, with 100,000 acres of organic farmland. Iowa leads the nation in the number of acres set aside as riparian buffers, grassed waterways, contour buffer strips, field borders, and other buffers on private farmlands – reducing soil erosion, protecting water quality, and stabilizing stream banks.*  
 (Source: Iowa Department of Agriculture and Land Stewardship, Soil Conservation Division.)

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## ABOUT THE IPERS PLAN

The IPERS Plan was established to help Iowa public employees have a financially secure retirement. The retirement benefits provided by IPERS are one part of your overall retirement savings. Your total retirement income will come from a combination of your IPERS Plan benefits, Social Security, personal savings, and any other retirement plan benefits.

IPERS is a defined benefit plan, which means the retirement benefits you receive from IPERS are calculated using a formula. When you become vested, you have a right to future retirement benefits. Vesting also entitles you to other rights under the IPERS Plan (see the “For Vested Members” brochure for more information).

You become vested when you meet one of these conditions:

- You complete 4 years of service.
- You attain age 55 and are making contributions to the Plan.

You and your employer contribute to IPERS. You are always entitled to 100 percent of your contributions and interest earnings. When you become vested, you have a right to a portion of your employer’s investment based on your years of service.

### The Refund Value of Your IPERS Account

The refund value of your IPERS account includes your contributions, any employer contributions you are entitled to, and interest earnings. You must be vested in order to receive any of your employer’s contributions.

To calculate the portion of your employer’s contributions you are eligible to receive, divide your years of service by 30 if you are a regular member or 22 if you are a Special Service member. Special Service members include sheriffs, deputy sheriffs, police officers, firefighters, and other protection occupations.

#### Example

Jenny, a regular member, has 12 years of covered service when she terminates employment. She is eligible to receive 40 percent of her employer’s investment [12 years ÷ 30].

## Alternatives When You Leave IPERS-Covered Employment

If you leave IPERS-covered employment after at least six months of work and before retirement, you have several alternatives regarding what you can do with your IPERS money. You may:

- Leave your money in IPERS.
- Roll over your money to another retirement plan.
- Take a refund.



### Your Alternatives

If you leave IPERS-covered employment after at least six months of work and before retirement, you can decide what to do with your IPERS money.

- **Alternative 1:** Leave your money in IPERS until you retire or choose another alternative.
- **Alternative 2:** Roll your money over to another retirement plan.
- **Alternative 3:** Take a refund.\*

To leave your money in IPERS, you do not need to do anything. To roll over your money or to take a refund, you must submit a written application.

Before you stop working in IPERS-covered employment, it's a good idea to contact IPERS. An IPERS representative will explain the impact your length of service has on your IPERS benefits. Sometimes working a few additional weeks can make a big difference in the benefits you are eligible to receive.

\*If you worked in IPERS-covered employment for less than six months, your employer may file a wage report adjustment with IPERS which will result in your contributions being returned to you.

## When IPERS Participation Continues Automatically

If you change jobs or employers, but continue working in IPERS-covered employment, your IPERS participation continues automatically. Most Iowa public employees are IPERS members. IPERS-covered employers include:

- Schools
- Counties
- Townships
- State agencies
- Cities
- Other public employers



### Important

If you have left an IPERS-covered position but are still working for an IPERS-covered employer, you must leave your money in IPERS. You will be eligible to roll over your money or take a refund after you have left all employment with an IPERS-covered employer. Please contact IPERS if you have any questions.

## ALTERNATIVE 1: LEAVE YOUR MONEY IN IPERS

If you leave IPERS-covered employment before retirement, you may leave your money in IPERS until you are ready to:

- Roll your money over to another retirement plan.
- Take a refund.
- Begin retirement benefits, if eligible (which is generally after you are vested and age 55 or older).

If you decide to leave your money in IPERS, your account will continue to earn interest.

## What You Need to Do

If you want to leave your money in IPERS, you do not need to do anything. Your money will automatically remain in the Plan. If you later decide to roll over your money to another retirement plan or take a refund, you can apply at any time.

If you leave your money in IPERS, keep these things in mind:

- **Get benefit estimates.** If you are vested and entitled to an IPERS retirement benefit, you may contact IPERS at any time to receive a benefit estimate showing the estimated retirement benefit you are eligible to receive.
- **Update address information.** Keep your address updated with IPERS to ensure you receive important information about your IPERS benefits.
- **Update beneficiary information.** Keep your beneficiary information up to date with IPERS. If you need to designate or change your beneficiary, call IPERS or visit <[www.ipers.org](http://www.ipers.org)> for an *Enrollment/Beneficiary Designation* form.
- **Applying for retirement benefits.** If you are vested, you may keep your money in IPERS until you are eligible and ready to begin receiving retirement benefits. Benefits may begin as early as age 55, or before age 55 if you are awarded social security disability benefits or railroad retirement benefits. To apply for retirement benefits, contact IPERS.

### *Special Considerations*

Each member's situation is different. While we cannot tell you what to do with your money if you leave IPERS-covered employment, here are some times when it might make sense to leave your money in IPERS:

- **You plan to return to IPERS-covered employment in the future.** If you decide to return to IPERS-covered employment, the service credits you earned before you left employment will remain on file if you keep your money in IPERS.
- **Your new employer's plan has a waiting period before you are eligible to participate.** Consequently, you cannot roll your money from IPERS into your new employer's plan until the waiting period ends.

- **You left IPERS-covered employment and do not have another employer-sponsored retirement plan available to roll your contributions over to.**
- **You are unsure what to do with your IPERS contributions.** While you decide what to do, you can leave your money in IPERS and let it earn interest. If you decide later that you want to take a cash refund, you may apply for the refund at that time.
- **You don't want to worry about managing your investment.** IPERS manages how Plan assets are invested so you don't have to worry about making investment decisions.
- **You want to keep access to IPERS death benefits.** By leaving your money in IPERS, you continue to provide your beneficiary with protection in the event of your death.

## **ALTERNATIVE 2: ROLL OVER YOUR MONEY TO ANOTHER RETIREMENT PLAN**

A rollover transfers your money from IPERS to another eligible retirement plan. By rolling over your money to another plan, you continue to set aside the money for retirement. If you roll over your IPERS money, you defer income tax liability (and avoid a 10 percent early-distribution tax, if applicable).

When rolling over your money, you may roll over all of your taxable money to an eligible plan, or receive some of your money as a cash refund and roll over the rest of your money. When taking a rollover, you must withdraw all of your IPERS money; you cannot leave some of your money in IPERS.

### **To Be Considered an Eligible Retirement Plan, a Plan Must Be:**

- A traditional IRA (not a SIMPLE IRA or Coverdell Education Savings Account, formerly known as an Education IRA).
- A Roth IRA.

- An eligible employer plan, which 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, money purchase plan, Section 403(a) retirement plan, Section 403(b) tax-sheltered annuity, and eligible Section 457(b) plan maintained by a governmental employer).



## What You Need to Know About Taking a Rollover or Cash Refund

IPERS provides a lifetime, monthly benefit to vested members whose monthly benefit is \$50 or more. (See page 2 for vesting requirements.) When you take a rollover or cash refund, you give up your IPERS membership rights for that period of employment.

If you decide to roll over your contributions, you need to confirm that the plan you're rolling your money over to is an eligible plan and find out whom the rollover check should be made payable to. You must include this information, and the type of plan you are rolling your money into, on your *Application for IPERS Refund*. IPERS will send your rollover check directly to your rollover institution on your behalf.



## Full or Partial Rollovers

When you roll over money, you can:

- Roll over all of your distribution.
- Take part of your distribution in cash and roll over the rest of your taxable distribution.

## ALTERNATIVE 3: TAKE A CASH REFUND

You may also take a cash refund when you leave IPERS-covered employment. If you elect a refund, you must withdraw your entire account. You cannot leave a portion of your money in IPERS.

### Special Considerations

When you take a refund, you terminate your IPERS membership, which could mean giving up a right to lifetime monthly benefits and IPERS disability and death benefits. If you receive a refund, you forfeit any service credits you have earned. If you later return to covered employment, you will be enrolled as a new member without credit for any service before the refund.

Generally, the only way to reinstate a period of service covered by a refund is to return to IPERS-covered employment and pay the applicable buy-back cost (see the “Purchasing Service” brochure for more information). Limited exceptions may apply to persons who are reinstated following an employment dispute and persons who qualify for social security or railroad retirement disability benefits. Contact IPERS for more information if you fall into one of these groups.

Once you file for a refund, you cannot work in IPERS-covered employment for 30 days after terminating your employment or your refund will be revoked. If you return to IPERS-covered employment before 30 days have passed, you must pay back the amount of your refund within 30 days of notification from IPERS. After the 30-day notification period, you must pay the buy-back cost to restore service credit for the period covered by the refund.

## About Taxes

If your taxable cash refund is paid directly to you (instead of being rolled over), 20 percent of the taxable portion will automatically be withheld to pay federal income taxes plus an additional 5 percent for state income taxes if you are an Iowa resident. Depending on your personal situation, you may be subject to additional withholding at tax time. Your cash refund is considered taxable income in the year in which it is received.

In addition to income tax withholding, you may be responsible for an additional 10 percent early-withdrawal tax penalty if payment is received before age 59½. This is in addition to your regular federal income taxes and any applicable state income taxes. Under certain circumstances, the additional 10 percent tax may not apply.



### A Note About Taxes

You will receive detailed tax information when you apply for a rollover or a cash refund. You also will receive an IRS Form 1099-R in January following the year in which you took a rollover or a cash refund.

## APPLYING FOR A ROLLOVER OR CASH REFUND

Before applying for a rollover or cash refund, you may want to contact your tax advisor to discuss the tax consequences of your choice. You also may want to contact IPERS and speak with a representative to ensure you understand the implication on your IPERS membership of rolling over your IPERS money or taking a cash refund.

If you decide that rolling over your money or taking a cash refund is the best choice for you, follow these steps to apply for a rollover or cash refund.

1. Obtain a copy of the *Application for IPERS Refund* by visiting <[www.ipers.org](http://www.ipers.org)> or calling IPERS at 515-281-0020 or toll-free at 1-800-622-3849.
2. Complete the *Application for IPERS Refund* in its entirety and return it to IPERS.
3. IPERS will issue your rollover check(s) or cash refund within 2 to 3 weeks of receipt of your completed application. In some situations, such as a divorce settlement, it may take longer to issue your rollover or cash refund check.



### Keep Your Address Updated With IPERS

To ensure you receive important information from IPERS – including important tax forms if you take a rollover or cash refund – keep your home address current with IPERS.

## AUTOMATIC DISTRIBUTIONS

If you leave money in IPERS, do not make any contributions for 5 years, and have an account balance less than the maximum set by the IRS (\$1,000 in 2007), IPERS will automatically send you a payout check. The gross amount of the check will include your contributions plus interest and, if you are vested, a portion of your employer's contributions. If you receive an automatic distribution from IPERS, you may:

- Cash your check (you may be subject to early-withdrawal tax penalties if you are under age 59½).
- Restore your IPERS account by returning the check to IPERS within 60 days of the date on the check.
- Roll over the money to an eligible retirement plan within 60 days of the date on the check.
- Ask for a direct rollover to another eligible plan by returning the check to IPERS within 60 days of the date on the check.

For more information about restoring your account after an automatic distribution or rolling over an automatic distribution, contact IPERS. Please note that if you have an account balance less than the IRS maximum and IPERS cannot locate you, your account will stop earning interest.



### Important

This booklet briefly explains certain rights and benefits of IPERS membership. It is not a substitute for federal and state laws governing IPERS, which provide complete information and are subject to change. Although IPERS makes every attempt to ensure its materials are accurate and up to date, any conflict between the contents of the booklet and law must be resolved in favor of the law. The Member Handbook provides a more detailed description of IPERS benefits. It is available electronically on the IPERS Web site or in print by contacting IPERS.

## CONTACT US

We're here to help you! If you have questions about IPERS, please don't hesitate to contact us.



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<http://www.ipers.org>

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