

# MSRP Withdrawal Requirements, Options & Beneficiaries



You have been deferring into your account for many years, and retirement is just around the corner. How might this money be distributed? What options are available to you? What are the requirements? Answers to these questions and more can be found here.

Requirements and restrictions for plan withdrawals are essentially the same across all of the MSRP plans. The basic rule is that the employee may not withdraw money if he or she is still employed. Once employment has terminated, the account value may be withdrawn, transferred to another plan or IRA, or left to accumulate additional earnings. The basic rule does have certain important details and exceptions.

## Withdrawal Requirements

### Minimum Withdrawals at Age 70½

All of the plans follow federal tax law, which requires all plan participants to begin withdrawals at age 70½, unless they are still employed by the State. The amount of the required minimum annual withdrawal is determined by IRS regulations that take into account life expectancy and estimated earnings from the account. The same required minimum amount is calculated annually for IRA accounts. The participant may withdraw greater amounts, but is not required to do so.

### Withdrawals Permitted

#### In-Service Distribution at age 59½

The 401(k) and 403(b) plans allow participants to withdraw account values after age 59½ even if they are still employed. The 457 plan only allows such withdrawals if still employed by the State at 70½ years of age. This type of in-service withdrawal is not available in the 401(a) Match plan.

#### Unforeseen Emergency or Hardship Distributions

The 457, 401(k) and 403(b) plans allow for emergency or hardship distribution even if the participant is still employed. These kinds of distributions are not encouraged, but if there is a documented financial hardship emergency the participant may be eligible for this type of withdrawal. This type of withdrawal is

subject to ordinary income tax, and may be subject to a 10% penalty tax if paid from the 401(k) or 403(b) plan. Withdrawals like these are not available in the 401(a) Match plan.

**457 Unforeseen Emergency Standards:** The financial emergency must be severe, and come from an unforeseeable event which produces an unbudgetable expense. Sudden unreimbursed medical expenses may qualify; automobile repairs generally will not, unless they are required because of an accident.

**401(k) and 403(b) Hardship Standards:** The need must be equally severe, but it need not be unforeseeable. In addition, payment of college tuition and purchase of a primary residence automatically qualify for hardship distribution under these plans. Except for the college and home reasons, the employees must document the hardship and his or her general financial status to qualify for a distribution. This includes showing that the hardship may not be alleviated by other assets or resources, or by stopping contributions to the plan.

#### Penalty Tax on Withdrawals Before 59½

All plan withdrawals are subject to State and federal ordinary income tax unless they are rolled over to another eligible plan or IRA. In addition, withdrawals prior to age 59½ from the 401(k), 403(b) or 401(a) plans are subject to a 10% penalty in addition to regular income tax. Exceptions to the 10% penalty may apply in the case of rollovers, death, disability, certain extended payouts, or payments on termination of employment in the year the employee turns 55 years or older. Withdrawals from the 457 plan are usually not subject to the 10% penalty tax.

## Withdrawal Options

Your options for payment are Systematic Withdrawals, Purchased Annuities, and Lump Sum. Direct deposit to your financial institution account is preferred.

### Systematic Withdrawal Options

Systematic withdrawal options allow you the flexibility and control over the money you have worked so hard to save. The benefits include the ability to select from a broad choice of investment options and the continuing freedom to change investments. Keep in mind your account continues to be subject to market risk, including possible loss of principle. You will receive a confirmation letter to verify your withdrawal selection. You continue to pay the same charges, including asset fees, paid by a regular participant. If you die before your account is exhausted, the remainder of your account is available to be paid to your beneficiary(ies).

#### 1. Designated Amount Systematic Withdrawal.

This option allows you to request a constant stated dollar amount. The amount of earnings on your investments and the amount of your withdrawal determine how long your money will last. Your payments can be received monthly, quarterly, semiannually or annually.

2. **Designated Period Systematic Withdrawal.** If you are concerned about how long your investment will last, this may be the option for you. You can state the number of years you wish your money to last. The amount you receive each year depends upon the number of years you select and how many are remaining, in addition to the performance of your investments. For example, suppose you choose a designated period of five years. Your annual disbursement would be one-fifth of the balance in the first year, one-fourth of the balance in the second year, and so on. The full balance along with any investment return would be depleted in the stated time period.

#### Changing Systematic Withdrawals

With the systematic withdrawal option, you may change your payout at any time. Most importantly, though, participants over age 70½ must receive at least the IRS calculated required minimum distribution. Systematic payments are accounted for on an automated system. So, if you wish to stop or

increase a payment you should contact the MSRP customer service center well in advance of the date the payment would ordinarily be made. Just call 1-800-545-4730.

If you die before receiving all of your payments under the systematic withdrawal options, your remaining accumulation is available to be paid to your primary beneficiary(ies). If the primary beneficiary is no longer living, the payments are made to any contingent beneficiary(ies).

### Purchased Annuity Options

#### Available from Nationwide Life Insurance Company and Metropolitan Life Insurance Company

With the purchased annuity options using your total account balance, your account records are removed from MSRP's record keeping system, and your balance is used to purchase an annuity contract. You no longer receive quarterly account statements - instead you receive payments on the annuity contract directly from the insurance company. When you buy an annuity, you will receive an annuity certificate stating the terms of the contract. Purchase rates, the amount it takes to buy a set amount of monthly income, are subject to change monthly. However, once you have purchased an annuity, the benefit amount remains the same for the life of the annuity. Payments can be received monthly, quarterly, semiannually, or annually. You may also purchase an annuity with just part of your account balance.

1. **Single Life Annuity.** This option maximizes the payment received. You receive a guaranteed lifetime income. All payments stop upon your death. There is no named beneficiary. Amounts are based on your age and your purchase amount.

2. **Life Income With Payment Certain Annuity (5, 10, 15, 20, 25 or 30 Years).** This option provides equal payments over your lifetime and guarantees payments for a stated period. If you receive at least the minimum number of payments, distributions continue for your lifetime. If you die before the end of the stated period, any remaining payments will go to your named beneficiary(ies). Amounts are based on your age and your account balance.

**3. Joint & Survivor Annuity (50, 66, 67, 75 or 100%).** This provides you and a beneficiary (usually a spouse) income for life. Payments to your beneficiary, if you should die prior to him/her, may be a percentage (50, 66, 67, 75 or 100%) of the original payments. Amounts are based on your age, your survivor's age and your account balance.

**4. Designated Period Annuity.** This option provides fixed payments over a specified period. If you should die before the end of the period, your named beneficiary(ies) receives the remaining payments. The payout period cannot exceed your actuarial life expectancy and can be anywhere from three to 20 years. Payments are based on your account balance, the number of years requested, and a pre-determined rate of return.

**5. Designated Amount "Cash Refund" Annuity.** This option provides payments of a stated dollar amount. If you should die before receiving all of the stated income, any remaining income will be paid to the beneficiary(ies). Payments are based on your account balance, the amount requested, and the predetermined rate of return.

NOTE: Guarantees discussed as part of the annuity contract are subject to the claims paying ability of the issuing insurance company.

## Lump Sum Payments

You can request a Lump Sum payment of a portion of your account or the entire account balance.

**1. Lump Sum Withdrawal.** This option pays the entire account balance in a single payment.

**2. Partial Lump Sum Withdrawal.** This option pays a portion of the account balance in a single payment. There is no limit to the number of partial withdrawals you may make.

## Retirement Consultation

As you near retirement, you can call Team MSRP's Personal Retirement Consultants at 443-886-9402 or 1-800-966-6355 to set up your free retirement consultation. You may request an appointment when you are within 5 years of retirement or after retirement.

## Payment Illustrations

As an added service to participants, Team MSRP offers payment illustrations at no additional charge. Payment illustrations summarize the potential future value of your account, given available payment schedules. You can request payment illustrations by calling the Hunt Valley office for Team MSRP at 443-886-9402 or toll-free at 1-800-966-6355 or the Team MSRP Customer Service Center toll-free at 1-800-545-4730.

## Withdrawal Forms

To get the necessary forms for selecting your payment date and/or method, or for changing a previous election, call the Hunt Valley office for Team MSRP at 443-886-9402 or toll-free at 1-800-966-6355. You may also download the forms at [www.MarylandDC.com](http://www.MarylandDC.com), click on Support & Forms in the left-side index.

## Payments

Benefit payments can be sent to you by mail or by direct deposit to your financial institution. Payment requests must be received at least 30 days before you want your payments to begin. For systematic withdrawals, the date on which your first check is issued or your first direct deposit is made is the issue date of all subsequent checks or direct deposits. For purchased annuity withdrawals, the issue date of your payments depends upon the annuity provider.

## Taxes and Withholding Requirements

### Pre-tax Accounts

Withdrawals from the 457, 403(b), 401(k) and 401(a) plans are considered taxable income and subject to federal withholding in the years they are received. In these plans, the IRS requires a 20% federal income tax withholding on most withdrawals, unless you elect a systematic withdrawal extending over ten years or more. You may choose to have more than 20% withheld. You use Form W-4P to designate federal income tax withholding on most withdrawals. State income tax withholding is mandatory at a rate of 7.75% if the recipient is a Maryland resident and the payment is subject to 20% federal withholding. You may request to have withholding to states other than where you reside or if you reside outside of Maryland. You also can use Form MW507P to designate Maryland state income tax withholding for amounts

that are not subject to mandatory withholding. You will receive a 1099R in January of each year for any withdrawals made in the prior year. You should file this tax statement with your income tax return. For an additional 1099R copy or other reports, log into your account at [www.MarylandDC.com](http://www.MarylandDC.com), select which Plan and click on Statements & Documents in the left-side index, then look for the Tax Documents tab. You should always consult your accountant, lawyer or tax advisor for individual guidance.

### **After-tax Roth Accounts**

Qualified withdrawals from Roth accounts are not subject to federal or Maryland taxation. A qualified withdrawal occurs when:

- A) the distribution is withdrawn 5 years or more after the year of the initial Roth 401(k) or Roth 457(b) contribution; AND
- B) the Roth 401(k) participant has attained age 59 ½ or becomes disabled or dies, OR the Roth 457(b) participant separates from service **and** attains age 59 ½ or becomes disabled or dies.

If a non-qualified withdrawal is made, the portion attributable to earnings will be subject to federal and Maryland taxation.

### **Working Beyond Age 70½**

In all plans, you may postpone taking payments from your account as long as you are employed by the state of Maryland and have not yet retired, regardless of your age. If you work for the state of Maryland past age 70½ please note that when you stop working, you must begin payments of your account by April 1 of the calendar year following the calendar year in which you retire.

### **Social Security**

According to current tax laws, payments from your supplemental retirement accounts are considered non-wage income, and therefore do not affect your Social Security benefits. However, payments from your plan(s) may affect the amount of federal income taxes assessed on your Social Security benefits. Social Security benefits are not subject to Maryland state income taxes.

### **Rollover to IRA**

Amounts paid from the 457, 401(k) 403(b) or 401(a) plans may generally be "rolled over" or transferred to

an Individual Retirement Account (IRA). They may also be rolled over or transferred to another 457, 401(k), or 403(b) plan as long as that plan agrees to accept the rollover. Required minimum distributions to participants over 70½ as well as certain systematic long-term withdrawals are not eligible for rollovers. If you meet the qualifying rollover rules of the tax code, the transaction is tax-free, and you then pay tax when you withdraw the account from the IRA or new plan. If you request a rollover into a Roth IRA, this will not be a tax-free distribution and is reportable as income. Rollover money could be subject to a 10% tax penalty if withdrawn from the new plan prior to age 59½. To arrange a rollover you must either a) arrange a direct transfer from the plan to the IRA or eligible plan; or b) deposit the money into the IRA or new plan within 60 days. If the withdrawal is paid to you directly, federal tax withholding is required; so to have a completely tax free rollover you will need to: a) arrange a direct transfer, or b) replace the 20% withholding amount withheld with your own funds. See your Team MSRP representative for details on which distributions are eligible for rollover, and how a rollover can be accomplished.

### **Beneficiaries**

You are required to name a beneficiary of your account when you enroll in the plans. You may change your beneficiary designation at any time. You are entitled to name any person as the beneficiary. You may download the form at [www.MarylandDC.com](http://www.MarylandDC.com) by clicking on Support & Forms in the left-side index.

### **Death without beneficiary designation**

If the participant dies without a beneficiary, the account is distributed according to terms of the plan. The plans provide that the account is distributed to the surviving spouse; if no surviving spouse, to surviving children; if no surviving descendants, to surviving parents; and if no parents, to the participant's estate.

### **Distribution to beneficiaries**

Distribution to beneficiaries under all of the plans is controlled by the tax rules under Internal Revenue Code 401(a)(9). Under these rules beneficiaries may elect a withdrawal at any time. Most beneficiaries must take certain minimum annual distributions from the account. The basic rule is that the beneficiaries are required to take annual minimum distributions that begin in the year after the participant's death. The

amount of the required distribution is calculated by IRS actuarial tables that take into account the age of the beneficiary and an expected investment return. There are two important exceptions to this rule. First, if the beneficiary is the surviving spouse, he or she does not have to take any distribution until the year the participant would have turned age 70½. The second exception occurs if the participant dies prior to reaching age 70½. A beneficiary can then elect to take no distribution until five years after the participant's death. In that case, however, all of the account must be distributed within five years after death.

### Spousal Rollover

If your beneficiary is your spouse under any of these plans [457, 403(b) or 401(k)], he/she may also choose to roll over the account to an Individual Retirement Account (IRA) or to any other eligible plan. A non-spousal beneficiary cannot roll over the account.

### Uniform Required Minimum Distribution

No later than April 1 of the year after which you turn 70½ you must take distributions at the stated rate from your supplemental retirement plans and Traditional IRAs. If you wait until after December 31 of the year in which you turn 70½ to take your distribution, you would have to take two minimum distributions that calendar year (one for age 70, and one for age 71).

**Excerpt from Table III - (Uniform Lifetime) IRS Publication 590  
(Account Value divided by “divisor” = required withdrawal)**

AGE	DIVISOR	AGE	DIVISOR	AGE	DIVISOR
70	27.4	79	19.5	88	12.7
71	26.5	80	18.7	89	12.0
72	25.6	81	17.9	90	11.4
73	24.7	82	17.1	91	10.8
74	23.8	83	16.3	92	10.2
75	22.9	84	15.5	93	9.6
76	22.0	85	14.8	94	9.1
77	21.2	86	14.1	95	8.6
78	20.3	87	13.4		

**To Request Forms** To request the appropriate beneficiary designation/change forms, call the Nationwide Customer Service Center toll-free at 1-800-545-4730. You may download the forms at [www.MarylandDC.com](http://www.MarylandDC.com), click on Support & Forms in the left-side index.

**To Make A Claim** To make a claim, call the Hunt Valley office for Team MSRP at 443-886-9402 or 1-800-966-6355.

For more complete information including charges and expenses, please consult the fund prospectus(es). These should be read carefully before investing and can be obtained by calling the Team MSRP Hunt Valley Office at 443-886-9402 or 1-800-966-6355.



**Maryland Teachers and State Employees Supplemental Retirement Plans**  
William Donald Schaefer Tower • 6 Saint Paul Street • Suite 200 •  
Baltimore, Maryland 21202-1608

Phone: 410-767-8740 Toll Free: 1-800-543-5605 Website: <http://MRSP.maryland.gov>