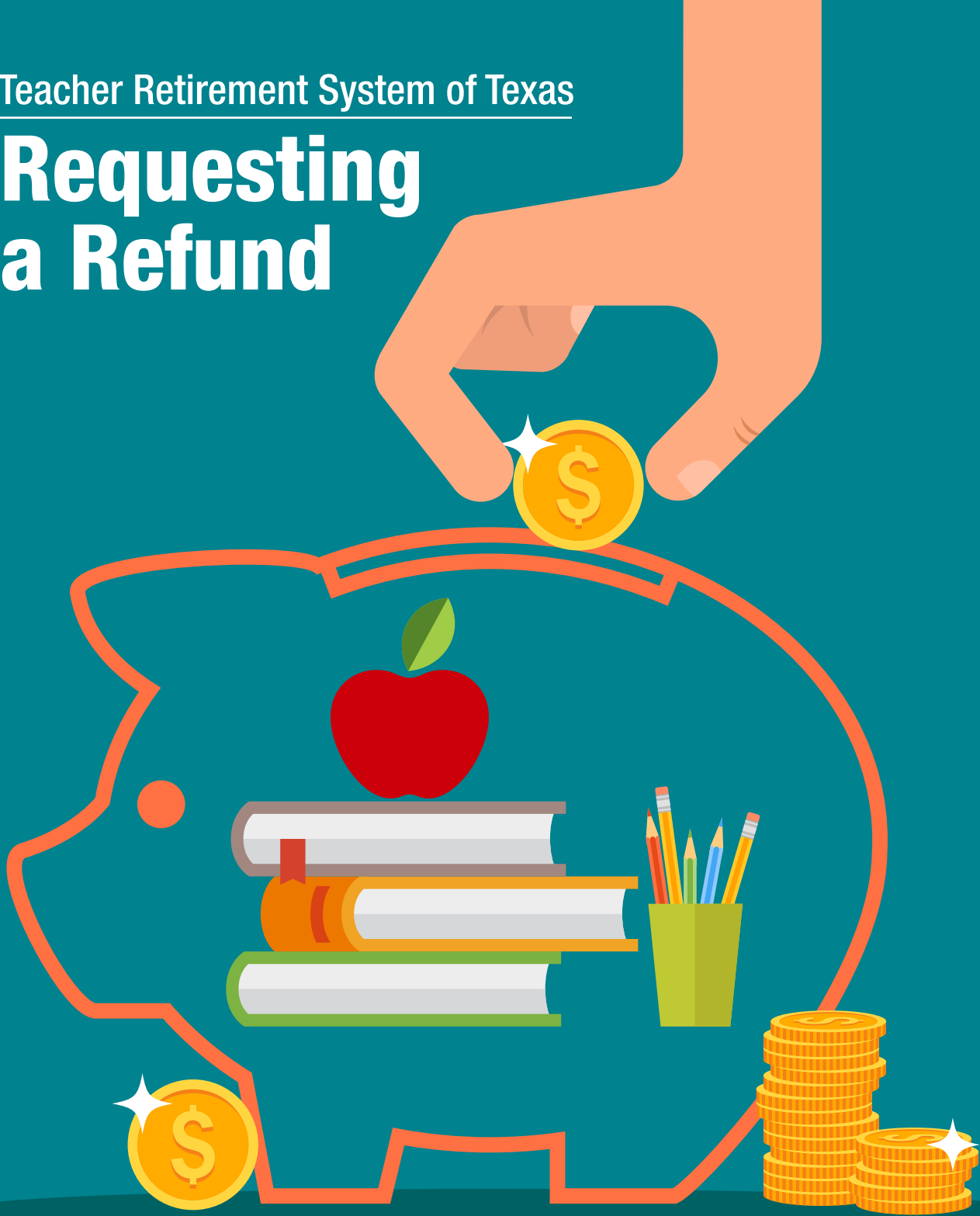


Teacher Retirement System of Texas

Requesting a Refund



TRS Vision

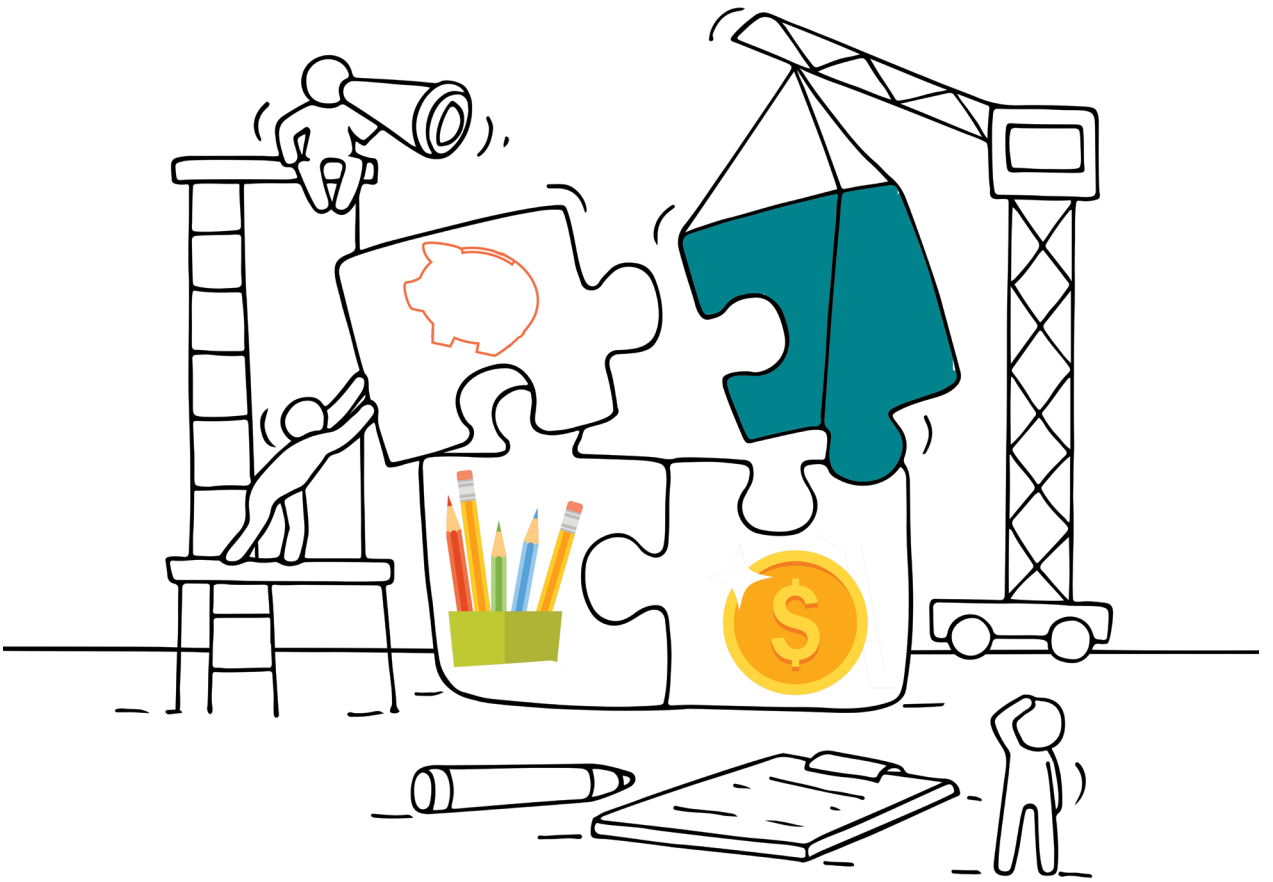
Earning your trust every day.

TRS Mission

*Improving the retirement security of Texas educators
by prudently investing and managing trust assets
and delivering benefits that make a positive difference
in members' lives.*

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Eligibility for a Refund

As a TRS member, if you permanently terminate employment with your TRS-covered employer(s) and have neither applied for nor received a promise of employment with a TRS-covered employer, you may terminate membership in TRS and withdraw all of the accumulated contributions in your member account. Partial withdrawals are not allowed. Terminating your TRS account also terminates all service credit with TRS and your right to receive any benefits associated with your membership and service credit.

Exception: If you are serving as a substitute and are not employed in any other capacity with a TRS-covered employer, you may withdraw your accumulated contributions.

Options to Consider Before Requesting a Refund

The decision to seek a refund of your member contributions is an important one. It may significantly impact you in a number of ways including the loss of certain types of service credit which must be continuously maintained and once refunded, cannot be repurchased at a later date. In addition, if you resume TRS membership at a later date, you may be subject to different retirement eligibility criteria and early-age retirement reductions. Therefore, it is advisable to consider all options available to you before making a decision. These options include the following:

- ▶ If you have less than five years of TRS service credit, you may leave your accumulated contributions with TRS, receive interest for up to five years while absent from TRS-covered employment and then later apply for a refund if you do not continue or return to employment with a TRS-covered employer. The interest rate is currently two percent.

Note: If you have less than five years of service credit, after five consecutive years without earning TRS service credit, your membership is terminated unless you qualify for an exception or work for a TRS-covered employer.

- ▶ If you have at least five years of TRS service credit you may leave your accumulated contributions with TRS and earn interest as long as these funds remain with TRS. The interest

rate is currently two percent. When you meet applicable age requirements you may apply for a retirement annuity based upon your service and salary history on file with TRS at the time your employment terminated.

You may terminate your membership in TRS by applying for a refund and withdrawing your account. You may use the accumulated contributions less any required withholding for federal income tax, for any purpose. See “Federal Income Tax Implications” for more information. If you terminate TRS membership and receive a refund of your accumulated contributions, you will terminate all service credit with TRS and if eligible, you will forfeit valuable future benefits associated with the service credit such as eligibility for a retirement annuity, death benefits, and retiree health insurance.

Federal Income Tax Implications

You may terminate TRS membership by applying for a refund and withdrawing your account, but defer receipt of taxable income by rolling your funds over to another qualified plan or traditional Individual Retirement Account (IRA).

Refunded amounts representing pre-tax contributions are subject to a mandatory 20 percent federal income tax withholding unless you elect to roll over all eligible amounts to another eligible qualified plan or to a traditional Individual Retirement Account (IRA). A 10 percent early withdrawal penalty assessed by the Internal Revenue Service (IRS) may also be applicable.



All or a portion of your refund that is eligible for rollover may be rolled over. For more information regarding amounts in your TRS account that are eligible for rollover and types of retirement plans eligible to receive rolled over amounts, see the *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas* attached to the *Application for Refund* form (TRS 6).

If you elect to roll over any eligible amounts of your refund to a Roth IRA, any portion representing pre-tax contributions that is rolled over is taxable. TRS will send a *Refund Rollover Election* form

(TRS 6A) that includes an opportunity for you to choose whether you want TRS to withhold 10 percent or another percentage for federal income tax or if you do not wish to have any amount withheld for taxes from amounts rolled over to a Roth IRA. As indicated in the *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas*, the 10 percent early withdrawal penalty will not apply even if you are under age 59½ at the time of the rollover to the Roth IRA.

If you are not a U.S. citizen or resident alien, TRS is required to withhold 30 percent for federal income tax unless you qualify for and properly claim benefits under a U.S. tax treaty. If you are eligible to claim tax treaty benefits, you must notify TRS of your eligibility for reduced withholding or exemption from withholding and provide any required documentation.

It is your responsibility to submit the proper tax reports to the IRS and to pay any additional taxes or penalties that may be due. TRS encourages you to contact your tax consultant for specific advice on how this distribution may affect your taxes.

Tax Statements Sent by TRS

Tax statements (Form 1099-R) are required to be mailed to your address of record with TRS no later than Jan. 31 of the year following a refund. Form 1099-R includes the total amount of the lump-sum distribution, any portion that is taxable income for the year paid and the amount of income tax withheld. This information is also provided to the IRS as required by federal law.

If you elect to roll over all or a part of your refund you will receive a separate 1099-R form regarding the rollover amount. Tax statements are mailed to the same address used for refunds. You must notify TRS in writing if your address changes after you receive your refund. TRS must receive your notification prior to Dec. 10 of the year in which you received your refund in order to ensure that the form will be sent to the correct address.

If you are not a U.S. citizen or resident alien, TRS will issue a Form 1042-S for your refund. This information is also provided to the IRS as required by federal law.

Payment Methods

Refund payments that are not rolled over can be issued as either a paper treasury warrant (check) or as a direct deposit. You can speed up the refund process by electing direct deposit.

All rollover payments will be issued as a paper treasury warrant and will be mailed to you at the address listed on your *Application for Refund* form (TRS 6).

Please note that in some cases, TRS will issue your refund payment as a paper treasury warrant even when you have selected direct deposit. This may occur if the direct deposit information was not completed in its entirety. This may also occur if you select a bank that is located outside of the U.S. to receive your direct deposit. In addition, if you select direct deposit to a U.S. bank and indicate that 100 percent of the refund will be transferred out of the United States, you will not be able to receive your refund through direct deposit and TRS will issue your refund payment as a paper treasury warrant mailed to the address listed on your *Application for Refund* form (TRS 6).

Returning to TRS Membership After a Refund

If you return to TRS membership after refunding your TRS accumulated contributions, you may elect to reinstate service credit terminated by your withdrawal by redepositing the amount that TRS has determined to be eligible* plus applicable reinstatement fees. The cost to reinstate the service credit increases each year after Aug. 31. This amount may be paid in a lump-sum payment or in monthly installments. If you pay by monthly installments, additional administrative fees are also assessed.

*Note: Not all service credit may be eligible for reinstatement after withdrawal. Some types of service credit must be continuously maintained such as credit earned by a student who was required to be enrolled as a student at the employing institution of higher education as a condition of employment when that type of service was eligible for membership in TRS.



Steps to a Refund

STEP 1: Obtain the *Application for Refund* form (TRS 6) and *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas* from the TRS website located at www.trs.texas.gov. If you prefer, you may request the application and notice by calling the TRS Automated Telephone System at 1-800-223-8778.

STEP 2: Read and complete the *Application for Refund* form (TRS 6) and sign the form in front of a notary. The *Application for Refund* form (TRS 6) requires your notarized signature certifying that you have permanently terminated your employment with your TRS-covered employer(s) and have not applied for or received any promise of employment with a TRS-covered employer. If your name on the *Application for Refund* form (TRS 6) is different than the one shown on TRS records, you must send TRS a Social Security card or a copy of the court order or marriage license documenting your name change. If your agent under a power of attorney signs the request, a copy of the power of attorney must be submitted to TRS for review.

STEP 3: Send the completed application and any required documentation to:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

STEP 4: TRS will contact your previous employer(s) to confirm your date(s) of termination and final monthly contributions. If your TRS-covered employer(s) has not already done so, your employer(s) will submit a monthly payroll report that contains your final salary and deposit to TRS. This report is due shortly after the end of the calendar month in which your employer(s) made its final payment(s) to you.

STEP 5: If you would like to roll over all or a portion of your refund that is eligible for rollover, TRS will send you a *Refund Rollover Election* form (TRS 6A). Also refer to the *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas* attached to the *Application for Refund* form (TRS 6). You must complete and sign the *Refund Rollover Election* form (TRS 6A) indicating the amount that you wish to roll over. The representative of the retirement plan receiving your rollover must also sign the form certifying that the plan is eligible to receive the rollover of funds from your TRS account.

STEP 6: After all required documents have been received by TRS and your account has been reconciled with the last deposits from your employer(s), TRS will request the State Comptroller of Public Accounts to issue you a refund payment. The payment will not be processed if records indicate that you have been re-employed by a TRS-covered employer. Your payment may also be held by the State Comptroller of Public Accounts for other reasons including indebtedness to the state for delinquent child support or for nonpayment of federal or state taxes.

Time Frame for Receiving a Refund

Generally, a refund payment will be issued within 60 days after all required documents have been received and your employer's monthly payroll report that includes the last payment to you has been processed by TRS. This means that TRS not only must receive your application for refund (and rollover election form, if applicable), but it must also receive your member contributions and the last monthly report from your TRS-covered employer(s). The process can take up to 90 days depending upon your last date(s) of employment.

Receipt during the refund process of a qualified domestic relations order relating to a divorce between you and your former spouse may significantly delay the refund. Additional time should also be allowed for processing a refund if any of the following are received by TRS:



- ▶ a temporary restraining order (TRO) which prohibits the member from removing any funds from TRS,
- ▶ child support order which orders a portion of the benefits paid on behalf of a child,
- ▶ a child support lien which prohibits distribution of any portion of the TRS account to the member,
- ▶ an IRS levy for federal taxes owed by you or your spouse,
- ▶ an IRS lien, or
- ▶ a writ of garnishment for criminal restitution involving you or your spouse.

There are other events that may delay the processing of a refund. For example, if the name of the account holder on TRS records does not match the name used on the *Application for Refund* form (TRS 6), the refund will be delayed until TRS receives satisfactory proof of the name change and the name is confirmed. Also, if the *Application for Refund* form (TRS 6) is submitted by an agent under a power of attorney, a copy of the power of attorney will be requested and reviewed by TRS to verify the authority of the agent to terminate the membership and receive a refund of the accumulated contributions in the member account.

The following example illustrates the sequence of events that normally occur when a refund is requested:

If you resign from your position on Jan. 15 and your final payment from your employer is paid in January, the employer should submit its monthly report for January by Feb. 6. Depending on the employer's payroll periods, this final report should include your final deposit. The final employer report with that final deposit amount will usually clear by the end of February. It may take two weeks for TRS to process the information contained in the employer's final report, create and verify accounting records, and request a payment from the State Comptroller of Public Accounts. So, it may be the middle of March before you receive the refund payment.

TRS strives to ensure that the correct amount of benefit is paid in accordance with your instructions. Sufficient time is required to verify your employment status, final pay and, if

applicable, rollover instructions. If your address has changed, you must send TRS a written notice of your new address. You must sign the notice and include your Social Security number.

While this may seem like a lengthy process, these steps are necessary to ensure that the correct amount of benefit is paid to the proper person. These verification and audit processes were implemented to safeguard your member account and avoid misdirection of funds.

For a complete statement of the laws and administrative rules that pertain to the withdrawal of member contributions, consult Chapters 822 through 825, Texas Government Code and Chapter 27, Title 34, Texas Administrative Code. These statutes and rules are available via the TRS website (www.trs.texas.gov).

Frequently Asked Questions Regarding Refunds



1) How can I qualify to receive a refund of my TRS member contributions?

If you have permanently terminated employment with your TRS-covered employer(s) and have neither applied for nor received a promise of employment with a TRS-covered employer, you are eligible to request and receive a refund of your accumulated contributions.

2) When may I apply for a refund?

If you meet all requirements in order to withdraw your account, you may do so at any time and receive interest on your accumulated contributions until the end of the month prior to the month in which the refund is paid by TRS.

3) How can I initiate the process of requesting a refund?

Complete and submit an *Application for Refund* form (TRS 6) to TRS. Your member account will be refunded following receipt of all completed forms and your employer's monthly report that includes your final deposit. Your TRS membership will then be terminated and a refund issued to you.

4) When TRS refunds contributions in my member account, what specifically is refunded?

All of your member contributions submitted to TRS by your TRS-covered employers, any voluntary contributions you have made to purchase service credit and any interest credited to the account are refunded. Collectively, these amounts comprise your “accumulated contributions.” State and employer contributions, however, are not part of your member account and are not refundable. State and employer contributions remain in the TRS pension fund. Also, fees that you paid to purchase or reinstate service credit and amounts you were required to contribute to TRS-Care are not maintained in your member account and are not refundable.

Interest on your accumulated contributions is credited through the end of the month prior to the month in which your membership in TRS is terminated. This is generally the date that TRS requests the State Comptroller of Public Accounts to issue the refund payment. For further information regarding the calculation and crediting of interest on your TRS account, please see the response to question 7 on page 10.

5) How is federal income tax withholding handled for my refund?

Refunded amounts that are pre-tax amounts are subject to a mandatory 20 percent federal income tax withholding unless you elect to roll over eligible amounts to another eligible qualified plan or traditional Individual Retirement Account (IRA). To initiate a rollover to an eligible retirement plan, submit a completed *Refund Rollover Election* form (TRS 6A) as indicated in this brochure. A 10 percent early withdrawal penalty assessed by the IRS may also apply to any amount that is not rolled over.

If you elect to roll over any eligible amounts of your refund to a Roth IRA, any portion that is rolled over representing pre-tax contributions is taxable. TRS will send a *Refund Rollover Election* form (TRS 6A) that includes an opportunity for you to choose whether you want TRS to withhold 10 percent or another percentage for federal income tax or if you do not wish to have any amount withheld for taxes from amounts rolled over to a Roth IRA. As indicated in the *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas*, the 10 percent early withdrawal penalty will not apply even if you are under age 59½ at the time of the rollover to the Roth IRA.

If you are not a U.S. citizen or resident alien, TRS is required to withhold 30 percent for federal income tax unless you qualify for and properly claim benefits under a U.S. tax treaty. If you are eligible to claim tax treaty benefits, you must notify TRS of your eligibility for reduced withholding or exemption from withholding and provide any required documentation.

6) How long does it take for me to receive a refund of my accumulated contributions after submitting form TRS 6?

Usually, a refund can be issued to you within 60 days after all required documents are received by TRS. Before a refund can be issued, TRS must receive your completed application as well as the final contribution deposit and monthly report from your TRS-covered employer. If you wish to roll over all or a portion of your refund that is eligible for rollover, you will need to complete the upper half of the *Refund Rollover Election* form (TRS 6A) and send it to the retirement plan that will receive your rollover. The receiving plan must then complete the form and return it to TRS. The entire process may take up to 90 days, depending on your last date of TRS-covered employment.

7) How is current-year interest calculated on a withdrawn account?

TRS computes current-year interest on the mean balance in the terminating member's account from Sept. 1 of that fiscal year through the last day of the month prior to the month of termination of membership. The mean balance is the average of the member's lowest and highest balances. The interest rate is currently two percent.

8) Can I withdraw only a portion of my TRS account?

No. You must terminate membership and withdraw all accumulated contributions in your account.

GENERAL TRS INFORMATION

TRS website: www.trs.texas.gov

Mailing Address:

Teacher Retirement System of Texas

1000 Red River Street

Austin, Texas 78701-2698

Please remember to include your name and participant ID or Social Security number on all correspondence mailed to TRS.

TRS Telephone Counseling Center:

Monday - Friday, 7 a.m. - 6 p.m. Automated information is available day or night, seven days a week at 1-800-223-8778.



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1000 Red River Street

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