



# RSA-1 Deferred Compensation Plan

Catch-up, Rollovers, Transfers,  
Withdrawals, Distributions,  
& Tax Information



The Retirement  
Systems of  
Alabama

# Contact RSA-1

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When sending an e-mail, please include your full name, employer, home mailing address and daytime phone number.

## Mail

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## Web site

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## Building Location

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Montgomery, Alabama

## Business Hours

8:00 a.m. - 5:00 p.m.

Monday - Friday

*Cover photos (from left to right): Highland Oaks, Dothan; Riverview Plaza Hotel, Mobile; Marriott Shoals Hotel & Spa, Florence*

# Introduction

The Retirement Systems of Alabama (RSA) is pleased to provide the RSA-1 Deferred Compensation Plan distribution issues brochure. This brochure is an important part of our commitment to provide RSA-1 members with important information pertaining to RSA-1 withdrawals, distributions, catch-up, rollovers, transfers, and tax information. Please read this brochure carefully and contact RSA-1 with any questions you may have about the RSA-1 Deferred Compensation Plan.

*The information in this brochure is based on Section 457 of the Internal Revenue Code of the United States and is authorized by §36-27A-1, et. seq., Code of Alabama 1975. This brochure is not intended as a substitute for the Internal Revenue Code nor will its interpretation prevail should a conflict arise between its content and Section 457 of the Internal Revenue Code. Do not rely solely upon the information provided in this brochure to make any decision regarding distributions with RSA-1, but contact RSA-1 directly with any questions you may have.*

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# General Information

## ***RSA-1 Administration***

RSA-1 is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code of the United States and is authorized by §36-27A-1, et. seq., Code of Alabama 1975, as amended. As an RSA-1 member, you have been making deferrals to your RSA-1 account to be distributed to you at a later determined date, usually at retirement or other termination of service. Because receipt of the income is deferred, the deferred income is not included in your federal or state of Alabama gross taxable income. The deferred income is invested for your benefit.

Investment earnings are accumulated in the fund and like the deferred income, are not subject to federal or state of Alabama income taxation until distributed to you. Deferred income and investment earnings are held in your account for your exclusive benefit and your beneficiaries.

Unlike other funds, there are no administrative, membership, investment, transaction, sales or commission fees for participating in the RSA-1 Deferred Compensation Plan. All the money you defer and all investment earnings are placed into your account and invested by RSA-1.

RSA-1 is administered by the Secretary-Treasurer of the Employees' Retirement System under the supervision and direction of the PEIRAF Board of Control, which is composed of members of the investment committees of the Teachers' and Employees' Boards of Control. This board is authorized to make the rules and regulations governing RSA-1 in conformance with the requirements of the Internal Revenue Code.

The administrative cost for the operation of RSA-1 is provided from the expenses of the

Employees' (ERS) and Teachers' (TRS) Retirement Systems. No additional state funds are used to administer RSA-1.

### **Beneficiary Designation**

It is very important to maintain current beneficiary designations. Federal tax laws dictate certain requirements for distributions of your RSA-1 account to your beneficiary(s) after your death. If you have not recently reviewed your beneficiary(s) designations, please do so as you prepare to terminate employment or retire. Your contingent beneficiary will only receive the funds if the primary beneficiary predeceases the contingent beneficiary. If you need to change your beneficiary or if your primary beneficiary dies, contact RSA-1 for a BENEFICIARY DESIGNATION form or download it from our Web site.

### **Change of Address**

Having your current home mailing address on file with RSA-1 is very important. Many important documents are mailed to each participant, including your account statements. Please report any change of address to RSA-1 in writing only, either by letter or change of address form. The ADDRESS CHANGE NOTIFICATION form can be obtained from RSA-1 or downloaded from our Web site.

## **Catch-up Deferrals**

If you did not defer the maximum deferral amount in the years beginning with 1986 and were eligible to participate, you may "catch-up" unused eligible amounts for one to three years if you are within three years of normal retirement age and are eligible for an unreduced pension.

The following limits apply:

Year	Catch-up Maximum
2010	\$33,000

Normal retirement age is age 60 with at least 10 years of service credit or an age you may retire and receive immediate unreduced benefits under your pension plan (i.e., 25 or 30 years). This age may be earlier than 60 but not later than 70 ½. You may make catch-up deferrals during the three calendar years prior to retirement or the three years prior to the year you become eligible to retire.

The following rules apply to the catch-up provision:

- ◆ The catch-up provision cannot be used more than once, whether or not you utilize the maximum catch-up deferrals in all three of the catch-up years.
- ◆ The designated catch-up period cannot be changed once you begin catch-up deferrals.
- ◆ You do not have to retire on the date indicated; however, the catch-up period based on the date cannot be changed.
- ◆ You may **not** catch-up during the calendar year in which you actually retire.
- ◆ Catch-up deferrals must be payroll deducted.

RSA-1 must approve the CATCH-UP PROVISION ELECTION AND WORKSHEET **before** catch-up deferrals can be made. This form is available on our Web site.

## Sick and Annual Leave Deferrals

If you are eligible to receive payment for sick and annual leave at termination of employment, you may defer up to the maximum limit in the year you terminate employment. For example, if you retire in 2010 and receive payment for sick and annual leave, you can defer up to the limit of \$16,500 (\$22,000

for age 50 and older) less any deferral you have already made to RSA-1 within that same calendar year.

If you have not made a deferral to RSA-1 in the calendar year of termination of employment, you may defer the full \$16,500 (\$22,000) for 2010. If you retire on January 1 of a year, you may defer up to the limit of the new calendar year. Deferring sick and annual leave payments to your RSA-1 account instead of receiving it in a lump-sum payment can save you 28% in taxes.

## **DROP Rollovers to RSA-1**

RSA-1 accepts rollovers from your RSA DROP account once you have terminated employment.

- ◆ You must establish an account prior to the rollover.
- ◆ If you are not a member of RSA-1, complete the RSA-1 MEMBER RECORD form and the INVESTMENT OPTION ELECTION FOR DROP ROLLOVERS form. You may find forms by accessing our Web site or contacting RSA-1.
- ◆ Complete these forms, have them notarized and return to RSA-1 prior to terminating employment.
- ◆ If you are already a member of RSA-1, complete the INVESTMENT OPTION ELECTION FOR DROP ROLLOVERS form and return it to RSA-1 prior to termination of employment.

For information about your DROP distribution, read the ERS or TRS DROP Distribution brochure on our Web site or request it from either the ERS or TRS.

## 457 Transfers to RSA-1

RSA-1 accepts trustee-to-trustee transfers from other Section 457 plans. An RSA-1 account must be established prior to the transfer. Funds transferred from other Section 457 accounts must never have been from any source other than 457(b).

To transfer these funds:

- ◆ Complete the TRUSTEE-TO-TRUSTEE TRANSFER FROM OTHER SECTION 457 PLANS TO RSA-1 form and the INVESTMENT OPTION ELECTION FOR 457 TRANSFERS form.
- ◆ The Trustee of the previous 457 plan must complete and sign Part II of the 457 TRANSFER TO RSA-1 form.
- ◆ Send the completed forms to RSA-1.

## Availability of Funds

### *Conditions for Withdrawal*

RSA-1 is not a savings account in which you make periodic withdrawals. Rather, it is a retirement account that is available only after you have either retired or otherwise terminated employment.

You may not withdraw your account unless you meet one of the following conditions:

- ◆ Separation from service through retirement or termination from employment
- ◆ The attainment of age 70 ½
- ◆ Unforeseeable Emergency
- ◆ Cash-out provision for small account balances

RSA-1 funds cannot be assigned or alienated.

Distribution must begin no later than April 1 of the calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later.

### **Unforeseeable Emergency**

An unforeseeable emergency is defined as follows:

- ◆ You or your dependent are faced with a severe hardship resulting from a sudden and unexpected illness or accident.
- ◆ You are faced with a severe hardship resulting from loss of property due to flood, fire, or windstorm.
- ◆ Other similar and extraordinary circumstances arising as a result of events beyond your control.

In case of withdrawals due to unforeseeable emergencies, payment may not be made if:

- ◆ The loss was protected by insurance.
- ◆ The loss can be satisfied by liquidation of the member's assets to the extent the liquidation of such assets would not in itself cause severe financial hardship.
- ◆ The loss can be satisfied by stopping payroll deductions to this plan.

In the event of emergency withdrawals described above, payments from your account can only be made to the extent reasonably necessary to satisfy the emergency.

These are the only conditions that permit you to withdraw your account for hardships. Hardships that do not fall into the unforeseeable category described above do not qualify for withdrawal.

Withdrawals will not be allowed for buying a home, college expenses or other similar purposes.

Providing the requested distribution qualifies as an emergency distribution, it can be taken at any time, whether or not you are in deferral status or distribution status.

If you think you qualify, complete the FINANCIAL HARDSHIP DISTRIBUTION REQUEST form located on our Web site or contact RSA-1 and request the form.

### **Cash-Out Provision**

The Internal Revenue Service allows a cash-out provision if **ALL** the following conditions are met:

1. The account balance is \$5,000 or less.
2. There have been no deferrals into the account for 24 months prior to the cash-out distribution.
3. There have been no prior distributions other than hardship distributions.

## **Distribution of Funds**

### **Distribution Options**

Distributions must be at least annually in frequency. No interest will be paid on the monthly interest posting date after the account has been distributed in full. There is no penalty for early distribution from a Section 457 plan.

At the time of separation from service, you have the following five distribution options:

**Option 1:** Receive a lump-sum payment consisting of the balance in the account. If you choose to receive distribution of your funds in a lump sum, the entire amount must be distributed to you no

later than April 1 of the calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later. The IRS requires RSA-1 to withhold 20% of the lump-sum distribution for federal income tax.

**Option 2:** Receive a partial distribution followed by equal monthly payments. If you choose to receive distribution of your funds in equal monthly payments, the distribution must begin no later than April 1 of the calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later. Checks are mailed the last business day of the month.

**Option 3:** Receive a partial distribution and leave your balance in your RSA-1 account until you have reached age 70 ½.

**Option 4:** Receive a monthly disbursement, provided the monthly distributions comply with the limits imposed by Section 457 of the Internal Revenue Code.

**Option 5:** Delay distribution of funds until a future date at which time any one of the above choices may be made. Current IRS regulations require that distributions begin not later than April 1 of the calendar year following the calendar year in which the employee attains age 70 ½ or retires, whichever is later.

### **Beneficiary Payments**

Contact RSA-1 for distribution questions about funds to the beneficiary(s).

### **Distribution Dates**

#### **Lump-Sum Payment**

If you choose to receive distribution of your funds in a lump sum, the entire amount must be distributed to you no later than April 1 of the calendar year following the calendar year in which you either

attain age 70 ½ or retire, whichever is later.

For example, if you reach age 70 ½ in 2009 and are retired, the deadline to receive the lump-sum payment is April 1, 2010. If you are age 70 ½ or older and still employed with an eligible agency, distribution begins immediately at retirement. The IRS requires RSA-1 to withhold 20% of the lump-sum distribution for federal income tax.

### *Equal Monthly Payments*

If you choose to receive distribution of your funds in equal monthly payments, the distribution must begin no later than April 1 of the calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later. Checks are mailed the last business day of the month.

These payments continue either:

- ◆ Over your life,
- ◆ Over your life and the life of your designated beneficiary, or
- ◆ Over a definite period (for example, five years) not extending beyond your life expectancy or your life expectancy and the life expectancy of your designated beneficiary.

### *Delayed Payments*

If you wait to begin distribution until the calendar year following the calendar year in which you attain age 70 ½ (but no later than April 1 of that year), the required distribution for two years must be paid that same calendar year:

- ◆ One distribution by April 1 for the 70 ½ year, and
- ◆ One distribution by December 31 for the year following the 70 ½ year.

## *Beneficiary Payments*

- ◆ If distribution begins **before** your death, any amount not distributed to you during your life will be distributed after your death to your beneficiary(s) in accordance with the requirements of the Internal Revenue Code and Regulations governing distributions.
- ◆ If distribution begins **after** your death, the distribution of the entire account must be made within 5 years of your death.

### *Except:*

If the spouse is the beneficiary and the benefit commencement date is no later than December 31 of the calendar year you would have been 70 ½, the entire amount payable must be paid during a period not to exceed the life expectancy of the surviving spouse.

If a non-spouse is the beneficiary, the benefit commencement date must be no later than December 31 of the calendar year following the year of your death and the entire amount payable with respect to you must be paid during a period not to exceed the beneficiary's single life expectancy in the year after your death.

If the estate or a trust has been named as beneficiary, the distribution must be distributed within five years after your death. The trust may be permitted to be revocable while you are alive, provided that it becomes irrevocable by its terms upon your death.

## *Distribution Forms*

Contact RSA-1 to request distribution forms.

## ***Transfers to Purchase Permissive Service Credit***

You may use your RSA-1 funds to purchase permissive service credit with a governmental defined benefit plan such as ERS and TRS. If you wish to purchase permissive service credit with the ERS or TRS, please contact the ERS or the TRS at 877-517-0020 for information on how to make this purchase. You must complete the IN-SERVICE TRANSFER form to purchase permissive service credit. This form is located on our Web site.

## ***Transfers to Other Plans***

RSA-1 allows transfers to other plans. You may roll over your RSA-1 funds to a Section 401(k), 403(b), 457 plan, Roth IRA, or a Traditional IRA if they are eligible to take a distribution.

## **Tax Information**

Distributions of amounts previously deferred as well as interest earned are subject to federal income tax withholding. Amounts deferred after January 1, 1997, as well as any interest earned, will be subject to state of Alabama income tax upon distribution.

### ***Withholding***

At the time you apply for RSA-1 benefits, you will complete a form W-4P and A-4 Withholding Certificate. You may submit a new form W-4P or A-4 Withholding Certificate at any time. Distributions are subject to the withholding rules applicable to qualified plans. For lump-sum payments, federal regulations require a flat 20% withholding (this will also apply to withdrawals for unforeseeable emergencies). For periodic payments, withholding will be based on your marital status and the number of withholding allowances claimed. If a Withholding Certificate is not filed, withholding will be based on single filing status with no allowances.

## ***Distribution***

Deferred income and investment earnings distributed from RSA-1 will be taxed to you or your beneficiary as ordinary income in the year of distribution. RSA-1 payments to you and your beneficiaries are reported on a form 1099R in the year of distribution. There is no penalty for early distribution from a Section 457 Deferred Compensation Plan such as RSA-1 regardless of your age at the time of distribution.

For amounts deferred in 1996 and prior years the principal and interest are subject to federal income tax upon distribution, while only interest is subject to Alabama income tax upon distribution.

For amounts deferred in 1997 and years thereafter, the principal and interest are subject to federal and state of Alabama income tax upon distribution.









**The RSA-1 Deferred Compensation Plan**  
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