



Overview of Rollover Or Transfer of Funds to HMEPS (Form RT-2)

IMPORTANT: Read this form in its entirety before taking any action.

This form RT-2 provides important information for HMEPS members regarding the Houston Municipal Employees Pension System's (HMEPS) acceptance of rollovers or direct trustee-to-trustee transfers of funds as payment for HMEPS credited service. HMEPS will accept rollovers or transfers only if a member is eligible to purchase HMEPS service and if the amount rolled over or transferred does not exceed the cost of the credited service being purchased. The rollover or transfer must meet the requirements described below.

The member must contact the current plan administrator or the IRA custodian to determine whether the funds are eligible for rollover or transfer. (For purposes of this form and the form RT-1, the terms "plan administrator" and "custodian" mean the retirement plan, bank, mutual fund company, annuity company, or other such entity currently holding your funds.) ***HMEPS cannot determine whether another plan or IRA is an eligible retirement plan. HMEPS also cannot determine whether a member is entitled to an eligible rollover distribution or transfer from the member's other retirement plan or IRA account.***

In order for HMEPS to accept a rollover or direct transfer, the member must obtain from HMEPS the cost for the credited service and a form RT-1, *Rollover/Transfer Request to Purchase HMEPS Credited Service*. On the form RT-1, HMEPS will enter in Part A the amount that is eligible to be rolled or transferred to HMEPS for the member's credited service purchase. The form RT-1 requires that both the member and the plan administrator or IRA custodian of the funds to be rolled over or transferred to provide information that HMEPS needs in order to accept the funds. Upon completion of Part B, the member must submit form RT-1 to HMEPS. HMEPS will forward the form to the plan administrator or IRA custodian specified by the member in Part B. The plan administrator or IRA custodian must complete Part C, and return the form RT-1, along with a check or wire transfer for the rollover or transferred amount, to the Houston Municipal Employees Pension System, Attn: Rollover/Transfer, 1111 Bagby, Suite 2450, Houston, Texas 77002.

GENERAL INFORMATION

- Federal tax law and HMEPS rules now permit HMEPS to accept both rollovers and direct trustee-to-trustee transfers, but there are different requirements for each. On form RT-1, Part B, a member must elect a rollover or a direct trustee-to-trustee transfer of funds. The information below will assist members in making the election. However, HMEPS cannot advise members on their eligibility for either election or which is best for them. Consult an attorney, tax consultant or the current plan administrator or IRA custodian if you have questions about the election.

- ***Rollover summary:*** HMEPS may accept an eligible rollover distribution from an eligible retirement plan to pay for all or a portion of the amount needed to purchase credited service in HMEPS. Recent changes to the Internal Revenue Code (IRC) broadened the definition of "eligible retirement plan" to include more types of plans. For example, HMEPS may accept an eligible rollover distribution from a traditional IRA or from a §403(b) plan for purchase of HMEPS credited service. Other types of eligible retirement plans and other applicable requirements are described below under "ROLLOVERS."

- **Direct trustee-to-trustee transfer summary:** HMEPS may accept a direct trustee-to-trustee transfer, but certain restrictions apply. The transfer is limited to a governmental §457(b) deferred compensation plan or a §403(b) plan. A plan may permit a transfer without a “distributable event.” However, the transfer is limited to payment of HMEPS credited service forfeited upon refund of contributions or “permissive service credit,” which is defined under IRC §415(n) and includes most types of HMEPS credited service. For more details, see “DIRECT TRUSTEE-TO-TRUSTEE TRANSFERS” below.

- You may use multiple accounts to pay for HMEPS service credit; however, you must fill out a separate form RT-1 for each plan or IRA, and the amount transferred or rolled over from each account cannot be less than \$1000 (if the total amount required to purchase the credited service is less than \$1000, such amount can be transferred or rolled over from one account only). The total of all amounts you are directing your plans to roll over or transfer to HMEPS must not exceed the total amount required to purchase the credited service (this amount is indicated in Part A of form RT-1 as the amount eligible to be rolled/transferred into HMEPS.)

ROLLOVERS

A rollover to HMEPS must satisfy federal tax law requirements, including the following:

- The rollover amount must be an “eligible rollover distribution” from an “eligible retirement plan.”
- “Eligible rollover distribution” has a specific meaning under federal tax law. Generally, it means that the funds are available because of a “distributable event,” such as termination of employment or other separation from service or because of reaching a specific age. (A distributable event is not required for you to roll over an IRA.) Also, you must receive the distribution as the named participant in the distributing plan, as a spouse or former spouse receiving the distribution under a qualified domestic relations order (“QDRO”), or as a surviving spouse of the participant in the distributing plan.

The distributing plan must determine whether there is a “distributable event” and whether the payment is an eligible rollover distribution. HMEPS will not make that determination.

- An “eligible rollover distribution” does not include the following types of distributions:
 - * any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the member or the joint lives (of joint life expectancies) of the member and the member’s designated beneficiary, or for a specified period of ten (10) years or more;
 - * any distribution to the extent such distribution is a required minimum distribution under IRC §401(a)(9); or
 - * any distribution that is made upon hardship of the member.
- An “eligible retirement plan” is one of the following:
 - * A traditional individual retirement account (IRA) or individual retirement annuity (other than an endowment contract) under IRC §408(a) or §408(b). This does NOT include a Roth IRA, a SIMPLE IRA, an education IRA (now known as a Coverdell Education Savings Account), or a SEP IRA. A rollover from a traditional IRA may include funds previously rolled over from another eligible retirement plan, including a §403(b) tax-sheltered annuity account;
 - * A “conduit” IRA, which is a traditional IRA that includes only funds from a qualified plan such as a §401(a), §401(k), or Keogh plan, or a §403(b) annuity plan, plus earnings. If you are making a rollover from a conduit IRA and you were born before January 1, 1936, you may

be eligible for special tax treatment on “lump sum distributions” from qualified plans, like HMEPS. However, if you make a rollover to HMEPS that would not have been permitted under the law in effect before January 1, 2002, this special tax treatment will not be available to you for any “lump sum distribution” you might ultimately receive from HMEPS. If you think you might be eligible for this special tax treatment, you should consult with a tax advisor before making a rollover to HMEPS;

- * A plan qualified under IRC §401(a), including a §401(k) plan, employee stock option plan (ESOP), Keogh plan, profit-sharing plan, defined benefit plan, and money purchase plan;
- * An annuity plan under IRC §403(a);
- * An eligible governmental deferred compensation plan under IRC §457(b); or
- * An IRC §403(b) plan.

The distributing plan/IRA must determine whether the distribution is from an “eligible retirement plan” and must certify on form RT-1 the type of plan. HMEPS will not determine plan eligibility or the type of plan from which the funds are being distributed.

You must have your distribution rolled over directly to HMEPS from the other plan in a “direct rollover.” A “direct rollover” means that your eligible rollover distribution is made payable to HMEPS rather than to you, and is sent directly to HMEPS. A direct rollover also avoids the 20% tax withholding applicable if the payment is made payable to you. **You cannot have the payment paid to you, then rolled over to HMEPS.** Also, the rollover cannot include any after-tax amounts.

DIRECT TRUSTEE-TO-TRUSTEE TRANSFERS

A direct trustee-to-trustee transfer to HMEPS must satisfy federal tax law requirements, including the following:

- A transfer is limited to a governmental §457(b) deferred compensation plan or a §403(b) plan.
- A transfer is limited to payment of HMEPS credited service that was forfeited due to a refund of contributions and “permissive service credit.”
- The transfer may only include pre-tax amounts.
- The transferring plan may not require a “distributable event” before making the transfer. However, the transferring plan may have certain requirements that apply. You should check with the plan administrator of the funds to be transferred about any conditions, fees, or requirements for transfer of funds.

IMPORTANT INFORMATION

To determine whether you may obtain an eligible rollover distribution from your plan or if your governmental §457(b) or §403(b) plan will permit a direct trustee-to-trustee transfer, contact your plan representative, IRA custodian, or tax advisor, such as an attorney or accountant. HMEPS cannot make this determination for you. An ineligible rollover or transfer may result in adverse tax consequences to you. If the IRS determines, or if HMEPS learns, that you made an ineligible rollover or transfer to HMEPS, HMEPS will distribute to you the amount of the rollover or transfer, without interest, following your separation from service. You will be taxed on any such distribution, and any credited service purchased with such a distribution will be cancelled by HMEPS.

Cancellation of HMEPS credited service purchased with an ineligible rollover or transfer may affect your eligibility for retirement or the amount of any benefit that you may receive or have received. Upon cancellation of HMEPS credited service, you will be required to repay to HMEPS any amounts you were ineligible to receive. This would include the full amount of any retirement benefits, if cancellation of credited service makes you ineligible for retirement, or the amount of the retirement payment attributable to the credited service, if you were eligible for retirement without the purchased credited service but were receiving a higher benefit amount attributable to the credited service.

The IRS may issue regulations or rulings that will result in changes to eligibility of funds for rollover distribution or direct trustee-to-trustee transfer. HMEPS will administer its retirement plan in accordance with any such changes.

You may contact the IRS for additional information at www.irs.gov or 1-800-TAX-FORMS. The following IRS publications may provide you with helpful information:

IRS Publication 575	Pension and Annuity Income
IRS Publication 590	Individual Retirement Arrangements (IRAs)
IRS Publication 571	Tax-sheltered Annuity Plans (403(b) Plans)
IRS Publication 554	Older Americans' Tax Guide
IRS Publication 553	Highlights of 2001 Tax Changes
IRS Publication 17	Your Federal Income Tax

THINGS TO CONSIDER

Give careful thought to using the rollover/transfer purchase method to purchase credited service in HMEPS, as there are a number of factors to consider before you make a decision, including the following:

- Your investment could possibly earn a rate of return if it remains in your plan/IRA that is greater than the benefit derived from purchasing HMEPS credited service using the rollover/transfer purchase method. However, individual circumstances differ. HMEPS cannot provide advice to members concerning investments or personal financial planning. It is best to consult your personal tax advisor or qualified investment counselor prior to making the decision to purchase credited service using tax-deferred savings.
- If you die prior to retirement, your contributions, including those rolled over or transferred, will be refunded to your beneficiary(ies). If your beneficiary is not your spouse, he or she may be liable for taxes on the refund as it is considered ordinary income. A spouse may defer taxes by rolling over the refund to a tax-deferred plan.
- Because tax-deferred savings plans are subject to investment performance, it may not be possible to predict how much you will have in your account on the date the form RT-1 is processed by your plan administrator/custodian. If HMEPS does not receive enough money to purchase the service, HMEPS will send you a letter notifying you of the additional amount owed (see #5-6 under "HOW TO BEGIN").

HOW TO BEGIN

1. If you are interested, please download a request form to purchase credited service off the HMEPS website at www.hmeps.org. You may also write HMEPS to obtain a request form. Our address is: HMEPS, 1111 Bagby, Suite 2450, Houston, TX 77002, ATTN: Service Purchase.

2. On the request form, you must indicate how you wish to pay for the credited service (i.e., by salary deduction, lump sum payment with after-tax funds, or by the rollover/transfer method with remaining amounts, if any, paid by salary deduction or a lump sum payment). If you intend to roll over or transfer funds from more than one plan or IRA, you must indicate that intent on the request form, as you will be required to complete a separate form RT-1, *Rollover/Transfer Request to Purchase HMEPS Service Credit*, for each such plan or IRA. HMEPS will first contact the City of Houston to verify your salary and service history. If you have chosen the rollover transfer method, HMEPS will send you form RT-1, with the cost information provided in Part A (if you are requesting a transfer from the City of Houston's 457 plan, HMEPS will also provide the distribution form required by the City's 457 vendor, Great West). You must complete Part B and return form RT-1 to HMEPS for further processing (if you are transferring funds from the City's 457 plan, you must also return the Great West distribution form to HMEPS).

3. HMEPS will forward form RT-1 to the plan/IRA you specify in Part B, which must complete Part C and return the form RT-1 to HMEPS, along with the funds to be rolled over or transferred. HMEPS will not be able to tell you how long it will take for your plan or IRA to roll over or transfer the funds. Contact the plan administrator or custodian for the funds that will be rolled over or transferred, not HMEPS, to determine the status of your request.

4. Upon receiving the completed form RT-1 and rolled/transferred funds, HMEPS will determine whether you owe additional amounts for the purchased service (i.e., if the rolled/transferred funds did not pay the cost amount in full, or if interest has accrued on the unpaid amounts in the time period during which the rollover/transfer was processed). If additional amounts are not owed, HMEPS will notify you that the service purchase has been paid in full.

5. If additional amounts are owed, HMEPS will notify you that you must complete a service purchase obligation for the additional amounts. HMEPS must receive your executed service purchase obligation within thirty (30) calendar days of the date on the notification letter. The service purchase obligation will be prepared pursuant to the specifications you selected in Part B of form RT-1, i.e., salary deduction over a specified period not to exceed five (5) years from the date of execution of the obligation, or by a lump sum payment (not a rollover or transfer) within sixty (60) calendar days of the date of execution of the obligation. **If HMEPS does not receive your executed service purchase obligation within thirty (30) calendar day of the date on the notification letter, the purchase of the credited service will be administratively cancelled, subject to Board action. If the service purchase is cancelled, you will receive no credited service attributable to the service purchase contributions made through the rollover/transfer, and will receive a refund, upon your written request, of the amount paid towards the service purchase pursuant to the rollover/transfer, without interest, following your separation from service.**

6. Upon completion of your service purchase obligation, HMEPS will notify you that the service purchase has been paid in full. If you do not complete your service purchase obligation, you have sixty (60) calendar days after the obligation period ends or after you separate from service, whichever is earlier, to pay the remaining amounts in a lump sum payment. If you do not pay all required amounts, you will receive no credited service attributable to the service purchase contributions made (whether through rollover/transfer and/or any other payment method), and you will receive a refund, upon your written request, of the amount paid towards the service purchase, without interest, following your separation from service.

If you have any additional questions regarding the rollover/transfer process, please call HMEPS at (713) 759-9275.