

# Oklahoma Firefighters Pension & Retirement System

## Frequently Asked Questions as of July 21, 2017

### Mandatory Distribution of Interest For Members First Hired Prior to November 1, 2013

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**Q1. Who is affected by the rule changes that require interest to be withdrawn from a member's Plan B account?**

- A1. 1. Any member who was first hired as a firefighter with a participating employer of the Oklahoma Firefighters Pension & Retirement System (the "System") prior to November 1, 2013: (a) who is retired or disabled and maintains a balance in the Oklahoma Firefighters Deferred Option Plan ("Plan B") or who is deceased and has a surviving spouse who maintains a balance in the Plan B account, (b) who is receiving a monthly benefit, and (c) who has not attained (or would not have yet attained in the year of the distribution) 70 ½ years of age will be subject to a mandatory distribution of interest.
2. In the year the member attains, or would have attained, the age of 70 ½, the member, or the member's surviving spouse, will no longer be required to take a mandatory distribution of interest, but will only be required to take an IRS-required minimum distribution. No Plan B account holder will be required to take a mandatory distribution of interest and an IRS-required minimum distribution in the same calendar year.

**PLEASE NOTE: If you are currently receiving an IRS-required minimum distribution as described in Q1 & A1.2 above, the remainder of this document DOES NOT APPLY TO YOU. This document is only meant to address those under 70 ½ years of age who will be required to take a mandatory distribution of interest.**

**Q2. Does the rule change affect the way interest is calculated?**

- A2. No. There is no change to the interest calculation. Interest is still earned and accrued on a daily basis during the plan year running from July 1 – June 30 each year. See Q&As 5 & 6 for further details.

**Q3. When do the mandatory distributions of interest occur?**

- A3. The first mandatory distribution of interest at the actuarial assumed interest rate will occur on or about June 30, 2018 and each June 30 thereafter (the "June Mandatory Distribution"). If the actual rate of return of the System's investment portfolio ("System's Return") earned for the plan year July 1, 2017 to June 30, 2018 exceeds the actuarial assumed interest rate for the System (currently 7.5%) by more than 2%, a second distribution of interest will be required on or before September 30, 2018 (the "Mandatory Distribution of True-up Interest"). The Mandatory Distribution of True-up Interest will only occur following plan years in which the System's Return exceeds the actuarial assumed interest rate for the System (currently 7.5%) by more than 2%.

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**Q4. How will I know how much I will receive?**

A4. In mid-to-late April of each year, you will receive an estimate of the June Mandatory Distribution and forms for electing how you wish to receive the distribution (lump sum or direct rollover) by letter and by email if you are enrolled in our Member Self Service website. On or about August 15 of each year, the System's Return for the plan year will be posted on the System's website as well as your Member Self Service page if you are enrolled, and you will be sent a statement of your Plan B account.

**Q5. How is the June Mandatory Distribution calculated?**

A5. On or about June 30, 2018, the System will calculate the interest you earned at the actuarial assumed interest rate (currently 7.5%) on your Plan B account during the plan year July 1, 2017 to June 30, 2018 (the "June 30 Interest"), and the amount of any monthly distributions or other withdrawals ("Voluntary Withdrawals") you took during the same time frame. If the June 30 Interest exceeds the amount of your Voluntary Withdrawals, the System will distribute the difference to you as the June Mandatory Distribution. If your Voluntary Withdrawals exceed the June 30 Interest, you will not receive a June Mandatory Distribution. This pattern will be repeated annually for June Mandatory Distributions in subsequent years.

**Q6. How is the Mandatory Distribution of True-up Interest calculated?**

A6. Your Plan B account earns interest for each plan year based on the greater of (1) the actuarial assumed interest rate and (2) the System's Return for the plan year less 2.0%. The System's Return for the plan year cannot be determined until after a plan year has ended and financial results are compiled. On or about August 15 of each year, the System's Return (for the plan year ending on the prior June 30) and the Plan B interest rate (for the plan year ending on the prior June 30) are posted on the System's website. Whenever the Plan B interest rate for a plan year equals the actuarial assumed interest rate, there will be no Mandatory Distribution of True-up Interest.

For any plan year for which the System's Return exceeds the actuarial assumed interest rate by more than 2%, the System will calculate the additional interest you earned on your Plan B account on or before August 15 (the "True Up"). If your Plan B account is credited with a True Up, the System will determine if a Mandatory Distribution of True-up Interest is required.

A Mandatory Distribution of True-up Interest (which could be paid before September, see Q&A 7) will be made to you to the extent the True Up plus the June 30 Interest is greater than your Voluntary Withdrawals for the plan year. If your Voluntary Withdrawals exceed the amount of the True Up plus the

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June 30 Interest, you will not receive a Mandatory Distribution of True-up Interest. This pattern will be repeated annually for the Mandatory Distribution of True-up Interest in subsequent years.

**Q7. What happens if I think I am entitled to a significant True Up (as defined in A6 above) and I wish to receive some or all of my Mandatory Distribution of True-up Interest before such distribution is made to all members?**

A7. If you timely request a one-time withdrawal, or receive a monthly withdrawal, from your Plan B account to be paid as of July 31, August 31 and/or September 30, these withdrawals will generally be treated as an early request of the Mandatory Distribution of True-up Interest. However, if any such withdrawal exceeds the Mandatory Distribution of True-up Interest (after consideration of any voluntary withdrawals during the prior plan year that exceed the June Mandatory Distribution), such excess amount will be treated as a "Voluntary Withdrawal" for the plan year in which such amount is distributed. See Q&A 5. If you would rather receive any amount of the Mandatory Distribution of True-up Interest without offset, please contact the pension office to request that amount.

For example, assume the Plan B rate of return for 6/30/18 is 9%:

Date	Transaction	Withdrawal/ Mandatory Distribution Amount	Balance	Posted Interest
6/30/2017	Beginning Balance	0.00	200,000.00	
12/29/2017	Voluntary Withdrawal	(5,000.00)	195,000.00	
6/30/2018	Initial Interest Posting 7.5%	0.00	209,811.99	14,811.99
6/30/2018	June Mandatory Distribution	(9,811.99)	200,000.00	
6/30/2018	Additional Interest ( <b>determined mid-Aug</b> ) 9% Total	0.00	202,962.40	2,962.40
7/31/2018	Voluntary Withdrawal	(500.00)	202,462.40	
8/31/2018	Voluntary Withdrawal	(500.00)	201,962.40	
9/28/2018	Voluntary Withdrawal	(500.00)	201,462.40	
9/28/2018	Mandatory Distribution of True-up Interest	(1,462.40)	200,000.00	
<b>Totals</b>		(17,774.39)		17,774.39

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**Q8. What can I do with my mandatory distribution of interest?**

A8. You will be given an opportunity to elect how you wish to receive your funds. The options will be to take the money directly or to roll the funds directly to an IRA you have set up (including a Roth IRA) or to a 403(b) plan, a 401(a) plan or a governmental 457(b) plan.

Note: the System will treat the election you make for the June Mandatory Distribution as applying to any Mandatory Distribution of True-up Interest you receive in September unless you provide other instructions.

**PLEASE NOTE: IRS-required minimum distributions that begin once you attain the age of 70 ½ are NOT eligible for direct rollover.**

**Q9. Is this distribution taxable?**

A9. All Plan B funds are held on a pretax basis until distributed. However, the taxable question depends on how you receive the money:

- **Did you roll the money directly into an employer plan or an IRA (other than a Roth IRA)?** If yes, then taxes are delayed until the time you take a distribution from that account. (Rollovers are not allowed for IRS-required minimum distributions.)
- **Were you declared by the State Board as disabled in the line of duty?** If yes, please consult a qualified tax advisor as to the taxability of these funds before you receive these funds directly or before you make a decision to roll these funds directly to an employer plan or any type of IRA.
- **Have (1) you received the distribution directly from the System which was not a direct rollover, (2) you not done a 60 day rollover, and (3) you NOT been declared disabled in the line of duty by the State Board?** If you answer yes to each of (1) – (3), then the distribution may be fully taxable. However, you should consult a qualified tax advisor on this matter.

**Q10. Will this distribution be subject to the 10% penalty for early withdrawal if I was under the age 50 when I retired?**

A10. Yes, if it is not timely and properly rolled over.

**Q11. If I roll my funds to a traditional IRA, does my public safety exception to the 10% penalty for being over the age of 50 when I retired follow to such IRA?**

A11. No. If you roll funds into a traditional IRA, you cannot withdraw funds from that account without penalty unless you have attained the age of 59 ½.

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**Q12. Will the System set up an IRA for you?**

A12. Generally, no; however, if you fail to provide direction, are under age 62, and your mandatory distribution of interest in either June or September is greater than \$1,000, then the System will set up an IRA in accordance with IRS guidance.

Applying IRS guidance, the System's rules provide that in the absence of an election by the Plan B account holder:

1. If any mandatory distribution is greater than \$1,000 and if a member has not reached the later of age 62 or the member's normal retirement date at the time of a mandatory distribution, and said member fails to provide an election to the System as to how he or she wishes to receive the funds, the System will automatically roll the funds into an individual retirement plan designated by the State Board of the System and invested in a default investment on behalf of the member. This applies to the member only and not to a distribution to a surviving spouse, alternate payee or upon the member's death.
2. Failure to make an election by a member who has reached the later of age 62 or the normal retirement date or failure to make an election by a surviving spouse, alternate payee, or other beneficiary will result in funds being sent directly to the recipient which may result in a taxable event.

**Q13. Can I roll my mandatory distribution of interest into a governmental 457(b) plan?**

A13. Yes, provided the governmental 457(b) plan will accept the contributions.

**Q14. Can the System help with what to do with these funds?**

A14. The System cannot provide financial advice to its members or their beneficiaries. Please contact a competent financial or tax advisor.

These FAQs are not intended to be a full description of the benefits provided by the System or to provide any personal financial, tax or legal advice. For example, IRS limits may apply, which could change answers to certain questions set forth above. Please consult with a qualified financial advisor, tax advisor and/or an attorney as needed.

If, in our efforts to make these FAQs easy to understand, we have omitted or misstated any of the System's provisions, the System's official legal documents and the State Board's interpretation of those documents must remain the final authority. These FAQs are subject to change without notice to account for changes in the System's official legal documents, the State Board's interpretation of those documents or other applicable federal, state, and local laws.