

**INDIANA STATE POLICE
PARTIAL LUMP SUM ("PLSO") RETIREMENT WINDOW
FREQUENTLY ASKED QUESTIONS ("FAQs")**

Q1: What is a PLSO?

A1: A PLSO is a partial lump sum option – a new and different payment option for your pension benefit. It allows you to elect to have a portion of your pension benefit paid in a lump sum when you retire. The remainder of your pension benefit would remain payable as a monthly pension. The monthly pension benefit will be actuarially reduced to take into account the part of your pension benefit that was paid up-front as a lump sum.

Under the Pension Trust, an eligible Employee (as described below) during a limited window opportunity may elect to have a portion of their pension benefit paid as a lump sum in one of the following amounts:

- An amount equal to 18 times his or her monthly benefit;
- An amount equal to 27 times his or her monthly benefit; or
- An amount equal to 36 times his or her monthly benefit.

A decision to retire under the PLSO is entirely voluntary and should be based on your personal financial and family situation, which differ for each Employee. If you elect to retire under the PLSO, there are tax consequences (as there are with all benefits) that you should consider. You should consult with financial or tax advisors whom you trust in order to determine whether retiring under the PLSO makes sense for you and your family, taking into account both tax consequences and your family's financial planning. We have provided additional general information regarding some tax issues to be considered under Q&A—8.

Q2: Who may elect a PLSO?

A2: The following individuals are eligible to elect a PLSO:

- Individuals who:
 - Are currently actively employed at the Department;
 - Are immediately eligible for retirement benefits either:
 - As a member of the Pre-1987 Plan who is immediately eligible for retirement benefits under Section 37(d) of the Pension Trust; or
 - As a member of the 1987 Plan who is immediately eligible for retirement benefits under Section 38(c) of the Pension Trust;

- Elect to retire effective on or before March 31, 2010; and
 - Have pension benefits commencing effective on or before March 31, 2010.
- Individuals who are currently active participants in DROP:
- If you are a participant in DROP under either the Pre-1987 Plan or the 1987 Plan, you may elect to revoke your DROP participation and retirement date and instead retire under the PLSO, instead of receiving your DROP benefit. In order to retire under the PLSO your retirement date must be effective on March 31, 2010 and you must pay to the Pension Trust the employee contributions you otherwise would have made during your participation in DROP, plus interest, by having that amount deducted from your partial lump sum payment. In this situation, your pension benefit and partial lump sum will be calculated as of your separation from service and will be based upon your total years of service, including your time spent in DROP.

Q3: Who may not elect a PLSO?

A3: The following individuals are not eligible to elect a PLSO:

- An individual currently receiving a pension benefit, a disability benefit, or a survivor benefit.
- An individual who is not actively employed by the Department on January 1, 2010.
- An individual who has a deferred vested pension benefit payable in the future.

Q4: When may I elect a PLSO?

A4: You may elect a PLSO by making your written election in a window from January 1, 2010 through February 1, 2010, if you:

- Are eligible (under Q&A 2).
- Are not ineligible (under Q&A 3).
- Elect to retire on or before March 31, 2010.

This election is voluntary – no one is required to retire under the PLSO.

Q5: Will the PLSO election be available after February 1, 2010?

A5: Not under the terms of the current Plan.

Q6: May I change my PLSO election?

A6: No. Your decision to retire under the PLSO is irrevocable.

Q7: Must I fill out a special election form?

A7: Yes. Please contact Laurie Hardin for the form.

Q8: How will my partial lump sum payment be paid?

A8: Your partial lump sum payment may be paid directly to you, or you may elect to have all or a portion of the lump sum payment paid in a direct rollover to an IRA or another eligible retirement plan.

There are several important considerations in deciding how you want your lump sum payment paid. You will also receive a special tax notice based upon an IRS-prepared notice describing your rights to directly rollover your lump sum payment, the types of plans or IRAs that can accept such payments, and special taxation rules.

The following is a discussion of some of the key tax issues you should consider with respect to the lump sum portion of the PLSO benefit. However, you should consult with a tax or financial advisor so that you understand all of the tax consequences regarding the PLSO benefit option and you can select which option is best for you and your family. Additionally, please keep in mind that this discussion is based upon current tax law, and may be subject to change.

Rollover. If you elect to have your partial lump sum payment rolled over to an eligible retirement plan or a traditional IRA (a "direct rollover"), there will be no taxes due on the amount of the rollover until you begin to withdraw these funds from the eligible retirement plan or IRA. At that point, your taxes will be based upon the amount withdrawn each year and the IRS requirements for the eligible retirement plan or the IRA you selected.

If you are eligible, you may also be able to elect to have your lump sum benefit rolled over to a Roth IRA. That would result in taxes on the amount of the Roth IRA rollover, and the funds when distributed from the Roth IRA would be subject to the taxation rules that apply to Roth IRAs.

➤ **Note:** As explained below, if you receive the lump sum payment directly from the Pension Trust without a rollover (and you do not otherwise make an "indirect rollover" to an eligible plan within 60 days of receiving the payment), you will be

subject to normal income tax on the payment. However, if you turn age 50 or older in the year that you receive the lump sum payment from the Pension Trust, you will be exempt from the additional 10% penalty that generally applies to "early" distributions from a retirement plan. **However, if you are under age 59½ and rollover your lump sum payment to a defined contribution plan (such as the State of Indiana Deferred Compensation Program) or an IRA, and then take a distribution from that defined contribution plan or IRA before attaining age 59½ (or age 55, depending on the circumstances), you will be subject to the 10% additional penalty tax (unless another exception applies).** You should consult with your tax or financial advisor to decide how you want to use your partial lump sum payment so that you can make the appropriate decision based on your particular circumstances.

Lump Sum. If you elect to have your partial lump sum payment paid directly to you, the benefits will be taxed as ordinary income in the year you receive them. Under IRS rules, a portion of your tax basis (the amount of your after-tax employee contributions to the Pension Trust) will be recovered with your lump-sum payment, so that a portion of the lump sum payment will be non-taxable. However, you will not be able to recover all of your post-tax contributions with the lump sum payment, because the IRS requires a pro-rata amount of your basis to be allocated to your lump sum and the remainder to your monthly pension payment.

- **Required Withholding:** If you do not make a direct rollover of these amounts, the Department is required to withhold 20% of the taxable amount of the lump sum for federal taxes when the lump sum is paid to you. You should carefully consider what taxes you will owe on the partial lump sum payment.

- **Note:** If (i) you are not age 50 or older in the year you receive the lump sum payment, and (ii) you elect a lump sum payment to be paid directly to you, a 10% federal "early distribution" penalty tax may be assessed. Certain exceptions apply to this penalty and you should consult with your tax or financial advisor to determine if you personally may qualify for any exclusions if you are considering retiring before you have reached age 50 and electing a lump sum benefit under the PLSO.

Please remember that the Department cannot provide you specific tax or financial planning advice. This information is just a general summary of some of the important tax issues to be considered, and is not intended to be a comprehensive explanation of all issues that should be considered with regard to a lump sum payment. Again, we highly recommend that you consult with a personal financial advisor to determine the best option for you.

Q9: Where can I get more information on the PLSO window election?

A9: The Department will be holding informational meetings that will provide additional details on the PLSO window election, give you the opportunity to ask any questions you may have, and allow you to receive an estimate of your retirement benefit would be under the PLSO. Additionally, the Department will be adding an on-line PLSO calculator to our website that Employees may use to estimate what their retirement benefit would be under the PLSO.