

Q&A

■ Transfer from a 403(b) plan

Q: I withdrew my contributions from the MTRS prior to having a child in 1971. At the time I returned to teaching, I chose not to repay my refund, but I am planning to do so before I retire. Currently, I am contributing to both the MTRS and a 403(b) plan. Am I eligible to **transfer** the amount needed to repay my refund from my 403(b) plan to the MTRS before I retire?

A: Yes. The provisions of EGTRRA allow the MTRS to accept a **direct transfer** from your 403(b) plan for the purpose of paying for eligible service buy-backs. The MTRS can also accept transfers from governmental 457 plans. These are known as “trustee-to-trustee transfers”—transfers from one plan directly to another plan while the employee is still in service.

■ Rollover from an IRA

Q: I have five years of out-of-state teaching service from New York that I am eligible to buy back with the MTRS. My retirement contributions from New York were rolled into an IRA when I left employment. Am I eligible to roll over my IRA to the MTRS to buy back my out-of-state service?

A: The MTRS will accept a rollover from an IRA if it is a pre-tax IRA account. Please be advised that the MTRS cannot accept a rollover from an IRA if the source of funds is post-tax money.

■ When the amount of your “eligible rollover distribution” is less than the cost of your service purchase

Q: I have received an invoice for the purchase of three years of substitute teaching service. I have an eligible rollover distribution, but it is less than the cost of my service purchase. Can I roll over my distribution in partial payment of my purchase? If so, how can I pay the balance?

A: Yes, we can accept your rollover as partial payment toward your total cost. You may then pay the remaining balance prior to your date of retirement either in a single **lump-sum payment** or, if the balance is \$1,000 or more, in annual payments under our five-year **installment plan**.

A Note on the MTRS and the New Tax Law (EGTRRA)

The Massachusetts Teachers’ Retirement System is a defined benefit plan that operates as a qualified employer plan under Section 401(a) of the Internal Revenue Code. Through December 31, 2001, we were only able to accept, as tax-free transactions, “eligible rollover distributions” from other 401(a) retirement plans and certain other eligible plans to purchase service credit.

On January 1, 2002, the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) became effective. This new tax law greatly expands the “portability” of your retirement plans by allowing you, in certain circumstances, to roll over or transfer funds between defined contribution plans and government pension plans.

What this means for you is that, as a member of the MTRS, you will now be able to use account balances in Section 401(a) plans, Section 403(b) plans, Section 457(b) government plans and IRAs to purchase eligible service credit with the MTRS. Additionally, for RetirementPlus members retiring prior to June 2006, eligible **rollover** distributions may be applied to your RetirementPlus accelerated cost.

You may apply a direct transfer or rollover toward the full or partial payment of the purchase of any eligible service buy-back. **Please remember that all service purchases must be paid for prior to your date of retirement.**



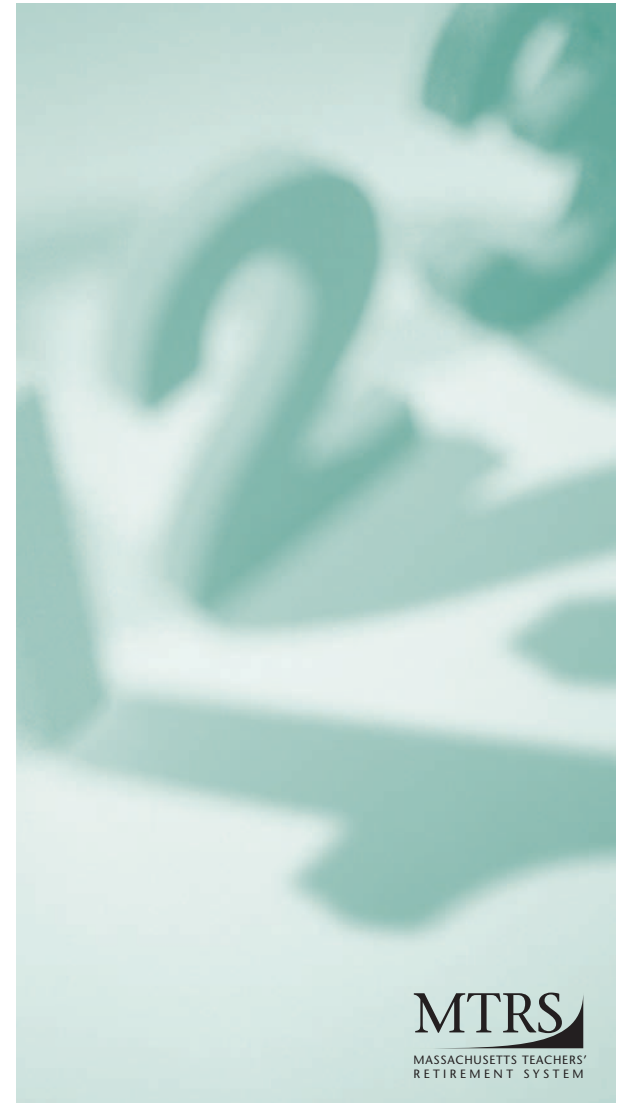
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Online mass.gov/mtrs

This brochure is written in simple language and is intended for use by members of the Massachusetts Teachers’ Retirement System. It briefly describes the process and requirements regarding purchasing service credit via a direct transfer or rollover. It is not intended as a substitute for the Internal Revenue Code, federal or Massachusetts General Laws, nor will its interpretation prevail should a conflict arise between it and the Internal Revenue Code, federal laws or M.G.L. c. 32.

Purchasing Creditable Service with a Direct Transfer or Rollover

An MTRS Basics Brochure for our active members



Direct Transfers and Rollovers: What are they?

These are transactions, strictly governed by the Internal Revenue Service, that involve the movement of funds from one eligible plan to another. The IRS has very specific guidelines governing such transactions because they involve pre-tax funds and affect your tax liability.

A direct transfer or rollover is one of three payment methods accepted by the MTRS for service purchases. The other two methods of paying for your service purchase are:

- **a lump-sum payment**, in which you remit the full amount due, including interest, in one lump-sum payment, and
- **our installment plan**, under which you pay the amount due, plus interest, over time (currently, up to five years), using post-tax money.

You may use any combination of these three methods to pay for your service purchase. If you wish to combine two or more payment methods—or transfer or roll over funds from more than one plan—please be sure to contact the MTRS in advance for more information.

How are they different?

Both terms describe the same type of transaction—the movement of funds between eligible plans. The difference is that, depending on the employment status of the person moving the funds, this transaction is called either a “direct rollover” or a “transfer.”

A **direct rollover** is the movement of funds between plans by a person who has **separated from service or terminated employment**. For example, if a member of the MTRS

previously taught in Kentucky, she may elect to roll over her funds from her Kentucky Teachers’ Retirement System to the MTRS to purchase credit for her out-of-state teaching.

A **transfer** is the movement of funds between plans by a person who **is an active employee**. For example, if a member of the MTRS wishes to purchase service credit, he may choose to transfer an account balance from an eligible plan, such as a 403(b) or 457 plan, to the MTRS to pay for his service purchase.

What are ...the benefits of this payment method?

Using pre-tax funds to purchase service credit results in significant cost savings to you because you defer paying taxes on these funds until you retire or leave the MTRS. You will not be taxed on these funds until after retirement, as you receive your monthly retirement benefit, or until you leave the MTRS and withdraw your funds.

Before you roll over your funds from another plan, however, you should check with that plan’s administrator to understand what rights and/or benefits, if any, you may be forfeiting by transferring your funds.

...the limitations and restrictions?

Be aware that there are some limitations and restrictions:

- the amount transferred must be from an eligible plan;
- the amount transferred must be equal to or less than the amount of your service purchase cost (we will not accept—and will return—any check payable for an amount greater than the amount due on a purchase); and,
- the actual payment must be sent to the MTRS at the same time or after we receive your completed *Direct Transfer or Rollover Acknowledgment* form.

From what type of plans may I transfer or roll over funds?

If you have funds in one of these...	You may pay for your eligible service purchase by way of a... ROLLOVER , if you are no longer employed by, or are leaving the employer through which you contributed to that plan	TRANSFER , if you are still employed by the employer through which you contributed to that plan
<input type="checkbox"/> A 401(a) tax qualified plan Includes pension, profit-sharing, 401(k) and ESOP plans as well as most other state public retirement plans.	✓	Not applicable
<input type="checkbox"/> A 403(b) plan	✓	✓
<input type="checkbox"/> A 457(b) governmental plan Also known as a deferred compensation plan.	✓	✓
<input type="checkbox"/> An Individual Retirement Account (IRA) This includes a 408(a) individual retirement account or a 408(b) individual retirement annuity. However, you may roll over only pre-tax funds, NOT after-tax funds.	✓	Not applicable

What do I need to do to roll over or transfer my funds?

There are certain steps that you—and we—need to take.

Step 1 You need to apply to the MTRS to purchase past creditable service and indicate on your form that you may be interested in paying via a transfer/rollover.

The MTRS will review your application to purchase service and then determine how much time you may purchase and its cost. The cost of purchasing your past service is based on what you would have paid to the MTRS in retirement contributions during that period (plus interest to date) or what you actually paid and withdrew (plus interest to date).

You may download our service purchase forms from our web site at mass.gov/mtrs, or obtain them from our Boston or Springfield office.

Step 2 The MTRS needs to send you an invoice for your service purchase, along with a *Direct Transfer or Rollover Acknowledgment* form that you and your Plan Administrator must complete and return before we can accept your rollover.

This is a very simple, easy-to-complete form that provides us with the basic information we need before we can process your rollover. You may also download this form from mass.gov/mtrs.

You will also need to compare your invoice with your eligible direct transfer or rollover funds. **The amount of your rollover or transfer must be equal to or less than the amount of your invoice.** You may not roll over an amount greater than your invoice. If your rollover is *less than* the amount of your invoice, we will bill you for the difference.

Before you roll over your funds from another plan, however, you should check with that plan’s administrator to understand what rights and/or benefits, if any, you may be forfeiting by transferring your funds.

Step 3 Your Plan Administrator needs to submit your completed form and payment by the due date indicated on the MTRS’s invoice.

We must receive your completed form either before or at the same time that we receive your direct transfer or rollover funds.

Step 4 The MTRS will credit your payment and service purchase in our records. That’s it!