



Requesting a Refund

APRIL 2014

TRS Vision

Earning your trust every day.

TRS Mission

Improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.



Eligibility for a Refund

As a TRS member, if you permanently terminate employment with your TRS-covered employer(s) and have neither applied for nor received a promise of employment with a TRS-covered employer, you may terminate membership in TRS and withdraw all of the accumulated contributions in your member account. Partial withdrawals are not allowed. Terminating your TRS account also terminates all service credit with TRS.

Exception: If you are serving as a substitute and are not employed in any other capacity with a TRS-covered employer, you may withdraw your accumulated contributions.

Options to Consider Before Requesting a Refund


The decision to seek a refund of your member contributions is an important one, and it may significantly impact you in a number of ways including the loss of certain types of credit which must be continuously maintained and once refunded, members cannot repurchase this service credit at a later date. In addition, if you resume TRS membership at a later date, you will be subject to new retirement eligibility criteria. Therefore, it is advisable to consider all options available to you before making a decision. These options include the following:

- If you have less than five years of TRS service credit, you may leave your accumulated contributions with TRS, receive interest for up to five

years while absent from TRS-covered employment and then later apply for a refund if you do not return to employment in a TRS-covered position. The interest rate is currently 5 percent but will be reduced to 2 percent effective Sept. 1, 2014.

Note: *If you have less than five years of service credit, after five consecutive years without earning TRS service credit your membership is terminated unless you qualify for an exception or return to work in a TRS-covered position.*

- If you have at least five years of TRS service credit you may leave your accumulated contributions with TRS and earn interest as long as these funds remain with TRS. The interest rate is currently 5 percent but will be reduced to 2 percent effective Sept. 1, 2014. When you meet applicable age requirements you may apply for a retirement annuity based upon your service and salary history on file with TRS at the time your employment terminated.
- You may terminate your membership in TRS by applying for a refund and withdrawing your account. You may use the accumulated contributions less any required withholding for federal income tax for any purpose. See “Federal Income Tax Implications” for more information. If you terminate TRS membership and receive a refund of your accumulated contributions, you will terminate all service credit with TRS and forfeit valuable



future benefits associated with the service credit such as eligibility for a retirement annuity, death benefits, and retiree health insurance.

- You may terminate TRS membership by applying for a refund and withdrawing your account, but defer receipt of taxable income by rolling your funds over to another qualified plan or traditional Individual Retirement Account (IRA). See "Federal Income Tax Implications" below for more information.



Federal Income Tax Implications

Refunded amounts that represent tax-sheltered contributions are subject to a mandatory 20 percent federal income tax withholding unless you elect to roll over all eligible amounts to another qualified plan or to a traditional Individual Retirement Account (IRA). A 10 percent early withdrawal penalty assessed by the Internal Revenue Service (IRS) may also be applicable.

All or a portion of your refund that is eligible for roll-over may be rolled over. For more information regarding amounts in your TRS account that are eligible for roll-over and types of accounts eligible to receive rolled over amounts, see *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas* attached to the *Application for Refund* form (TRS 6).



If you elect to roll over any eligible amounts of your refund to a Roth IRA, any portion that is rolled over that represents tax-sheltered contributions is taxable. TRS will send a *Refund Rollover Election* form (TRS 6A) that includes an opportunity for you to choose whether you want TRS to withhold 10 percent or 20 percent for federal income tax or if you do not wish to have any amount withheld for taxes from amounts rolled over to a Roth IRA. As indicated in the *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas*, the 10 percent early withdrawal penalty will not apply even if you are under age 59 ½ at the time of the rollover to the Roth IRA.

If you are a non-U.S. citizen and a non-resident alien, TRS is required to withhold 30 percent for federal income tax unless you qualify for benefits under a U.S. tax treaty. If so, you must notify TRS of your eligibility for reduced withholding or of your exemption from withholding and provide any required documentation.

It is your responsibility to submit the proper tax reports to the IRS and to pay any additional taxes or penalties that may be due. TRS encourages you to contact



your tax consultant for specific advice on how this distribution may affect your taxes.

Tax Statements Sent by TRS

Tax statements (Form 1099-R) are required to be mailed to your address on record no later than Jan. 31 of the year following a refund. Form 1099-R includes the total amount of the lump sum distribution, any portion that is taxable income for the year paid and the amount of income tax withheld. This information is also provided to the IRS as required by federal law.

If you elect to roll over all or a part of your refund you will receive a separate 1099-R form regarding the rollover amount. Tax statements are mailed to the same address used for refunds. You must notify TRS in writing if your address changes after you receive your refund. TRS must receive your notification prior to Dec. 10 of the year in which you received your refund in order to ensure that the form will be sent to the correct address.

Returning to TRS Membership After a Refund

If you return to TRS membership after receiving a refund, you may elect to reinstate service credit terminated by your withdrawal by redepositing the amount that TRS has determined to be eligible* plus applicable reinstatement fees. This amount may be paid in a lump sum payment or in monthly installments. If you pay by monthly installments, additional administrative fees are also assessed.

***Note:** Not all service credit may be eligible for reinstatement after withdrawal. Some types of service credit must be continuously maintained such as credit earned by a student who was required to be enrolled as a student at the employing institution of higher education as a condition of employment when that type of service was eligible for membership in TRS.

How to Apply for a Refund



STEP 1

The *Application for Refund* form (TRS 6) and *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas* are available on the TRS website (www.trs.state.tx.us). In addition, you may request the application and notice by calling the TRS Automated Telephone System at 1-800-223-8778.



STEP 2

If TRS membership records indicate that you have at least five years of service credit with the system, TRS will send you a *Waiver of Benefits* form (TRS 287) which you must sign and return to TRS. By signing this form, you acknowledge that accepting a refund will forfeit your TRS service credit accrued to date and eligibility for all TRS benefits associated with the service credit,



including TRS-Care health care coverage. With five years of actual membership service credit, you are eligible to receive a lifetime annuity when you have met the age requirements and apply to begin receiving a distribution. Please visit the TRS website for information regarding TRS-Care eligibility.



STEP 3

Read and complete form TRS 6 and sign the form in front of a notary. Form TRS 6 requires your notarized signature certifying that you have permanently terminated your employment with your TRS-covered employer(s) and have not applied for or received any promise of employment with a TRS-covered employer. If your name on the TRS 6 is different than the one shown on TRS records, you must send TRS a copy of the court order or marriage license documenting your name change. If your attorney-in-fact signs the request, a copy of the power of attorney must be submitted for review.



STEP 4

Send the completed application and waiver (if applicable) to:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698




STEP 5

If you were employed by a TRS-covered employer during the previous six months, TRS will contact your previous employer to confirm your date of termination and final monthly contributions. If your TRS-covered employer has not already done so, they will submit a monthly payroll report that contains your final salary and deposit to TRS. This report is due shortly after the end of the month following the calendar month in which your employer made its final payment to you.



STEP 6

If you would like to roll over all or a portion of your contributions that are eligible for roll-over, TRS will send you a *Refund Rollover Election* form (TRS 6A). Also refer to the *Special Tax Notice Regarding Your Rollover Options*



Under the Teacher Retirement System of Texas attached to form TRS 6. You must complete and sign the form TRS 6A indicating the amount that you wish to roll over. The representative of the company (plan administrator) accepting the roll-over must also sign the form certifying that the plan is eligible to receive funds from your TRS account.



STEP 7

After all required documents have been received by TRS and your account has been reconciled with the last deposits from your employer, TRS will request the State Comptroller of Public Accounts to issue you a refund warrant. The warrant will not be processed if records indicate that you have been re-employed by a TRS-covered employer. Your refund warrant may also be held by the State Comptroller of Public Accounts for other reasons including indebtedness to the state for delinquent child support or for nonpayment of federal or state taxes.

Time Frame for Receiving a Refund

Generally, a refund warrant will be issued within 30 days after all required documents have been received and your employer's monthly payroll report has been processed by TRS.

This means that TRS not only must receive your application for refund (and waiver of benefits and roll-over election form, if applicable), but it must also receive your member contribution and monthly report from your TRS-covered employer. **The process can take up to 90 days depending upon your last date of employment.**

Receipt during the refund process of a qualified domestic relations order relating to a divorce may significantly delay the refund. Additional time should also be allowed for processing a refund if any of the following are filed with TRS:

- a temporary restraining order (TRO) which prohibits the member from removing any funds from TRS,
- a child support order which orders a portion of the benefits paid on behalf of a child,
- a child support lien which prohibits distribution of any portion of the TRS account to the member,
- an IRS levy on the account, or
- an IRS lien.

Also, if the name of the account holder on TRS records does not match the name used on the *Application for Refund*, the refund will be delayed until TRS receives satisfactory proof of the name change and the matter is resolved. If the *Application for Refund* is submitted by an attorney-in-fact under a power



of attorney, a copy of the power of attorney will be requested and reviewed by TRS to verify the authority of the attorney-in-fact to terminate the membership and receive a refund of the accumulated contributions in the member account.

The following illustrates the sequence of events that normally occur when a refund is requested:

If you resign from your position on Jan. 15 and your employer submits their monthly report that includes your final deposit by Feb. 10, the final employer report with that final deposit amount will usually clear by the end of February. Then, another two weeks may pass while data is entered into the TRS computer system, accounting records are created and verified, and a warrant is requested from the state comptroller. So, it may be the middle of March before you receive the refund warrant.

TRS strives to ensure that the correct amount of benefit is paid in accordance with your instructions. Sufficient time is required to verify your employment status, final pay and, if applicable, rollover instructions. If your address has changed, you must send (not fax) TRS a written notice of your new address. You must sign the notice and include your Social Security number.

While this may seem like a lengthy process, these steps are necessary to ensure that the correct amount of benefit is paid to the right person. These verification and audit processes were implemented to safeguard your member account and avoid misdirection of funds.

For a complete statement of the laws and administrative rules that pertain to the withdrawal of member contributions, consult *TRS Laws & Rules*, including Chapters 822 through 825, Texas Government Code and Chapter 27, TRS Rules. *TRS Laws & Rules* are available via the TRS website (www.trs.state.tx.us).



How can I qualify to receive a refund of my TRS member contributions? You may terminate TRS membership by applying to withdraw your accumulated contributions if you have permanently terminated employment with your TRS-covered employer(s) and have neither applied for nor received a promise of employment with a TRS-covered employer.



When may I apply for a refund? If you meet all requirements in order to withdraw your account you may do so at any time and receive interest on your contributions during any month of the year.



How can I initiate the process of requesting a refund? Complete and submit an *Application for Refund* form (TRS 6) to TRS. Your membership will then be terminated, and your member account will be refunded following receipt of all completed forms and your employer's monthly report that includes your final deposit.



When TRS refunds contributions in my member account, what specifically is refunded? All of your member contributions submitted to TRS by your TRS-covered employers and any voluntary con-



tributions you have made to purchase special service credit plus any interest credited to the account are refunded. State contributions, however, are not part of your member account and remain in the fund. Also, fees that you paid to purchase or reinstate service credit and amounts you were required to contribute to TRS-Care are not maintained in your member account and are not refundable. Interest on your accumulated contributions is credited through the end of the month preceding the month in which your membership in TRS is terminated. This is generally the date that TRS requests the State Comptroller of Public Accounts to issue the refund warrant. For further information regarding the calculation and crediting of interest on your TRS account, please see the response to question 7 on page 16.



How is federal income tax withholding handled for my refund?

Refunded amounts that are tax-sheltered are subject to a 20 percent mandatory federal income tax withholding unless you elect to roll over eligible amounts to another qualified plan or traditional Individual Retirement Account (IRA). To initiate a rollover to a qualified plan, submit a completed form TRS 6A as indicated in this brochure. A 10 percent early withdrawal penalty assessed by the IRS may also apply.



If you elect to roll over any eligible amounts of your refund to a Roth IRA, any portion that is rolled over that represents tax-sheltered contributions is taxable. TRS will send a *Refund Rollover Election* form (TRS 6A) that includes an opportunity for you to choose whether you want TRS to withhold 10 percent or 20 percent for federal income tax or if you do not wish to have any amount withheld for taxes from amounts rolled over to a Roth IRA. As indicated in the *Special Tax Notice Regarding Your Rollover Options Under the Teacher Retirement System of Texas*, the 10 percent early withdrawal penalty will not apply even if you are under age 59 ½ at the time of the rollover to the Roth IRA.

If you are a non-U.S. citizen and a non-resident alien, TRS is required to withhold 30 percent for federal income tax unless you qualify for benefits under a U.S. tax treaty. If so, you must notify TRS of your eligibility for reduced withholding or of your exemption from withholding and provide any required documentation.



How long does it take for me to receive a refund of my accumulated contributions after submitting form TRS 6?

Usually, a refund can be issued to you within 30 days after all required documents are received by TRS. Before a refund can be

issued, TRS must receive your completed application and a *Waiver of Benefits* form (TRS 287), if applicable, as well as the final contribution deposit and monthly report from your TRS-covered employer. If you wish to roll over all or part of your contributions, you will need to complete a *Refund Rollover Election* form (TRS 6A) so that you can complete the upper half of the form and send it to your rollover institution. Your institution must then complete the form and return it to TRS. **The entire process may take up to 90 days depending on your last date of TRS-covered employment.**



How is current-year interest calculated on a withdrawn account? TRS computes current-year interest on the mean balance in the terminating member's account from Sept. 1 of that fiscal year through the last day of the month prior to termination of membership. The mean balance is the average of the member's lowest and highest balances. For interest accrued on or after Sept. 1, 2014, the rate will change from 5 percent to 2 percent.



Can I withdraw only a portion of my TRS account? No. You must terminate membership and withdraw all accumulated contributions in your account.



GENERAL TRS INFORMATION

TRS website: www.trs.state.tx.us

Mailing Address:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Please remember to include your name and social security number on all correspondence mailed to TRS.

TRS Telephone Counseling Center:

Monday - Friday, 7 a.m. - 6 p.m. Automated information is available day or night, seven days a week.
1-800-223-8778 (or 1-512-542-6400)

Dial Relay 711 (for the hearing impaired)



1000 Red River Street
Austin, Texas 78701-2698
512.542.6400
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