

Lump Sum Cashout

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As you look ahead to retirement, you have a lot of choices to make. UC's retirement benefits can become the financial foundation for an exciting new phase of your life.

Many members of the UC Retirement Plan (UCRP) are eligible to choose to receive their UCRP benefit as a single lump sum, instead of monthly retirement income. Getting a sizeable one-time check may have advantages for you, but be aware that by choosing this option, you forfeit other valuable UC retirement benefits, such as medical and dental insurance and the option to leave lifetime monthly income to a loved one upon your passing.

This fact sheet outlines who is eligible for a UCRP lump sum cashout, how the benefit works, factors to consider in making your decision, and how to apply. The information provided here is intended as a supplement to, and not a substitute for, the information provided in the *Special Tax Notice for UC Retirement Plan Distributions*. Please read the *Special Tax Notice for UC Retirement Plan Distributions* prior to making any distribution election.

Points to Consider

Once you elect a lump sum cashout, you can't change your mind—the decision is irrevocable. UC Human Resources recommends that you consult your tax and/or personal financial advisor. In particular, you might want to think through these questions as they relate to your retirement plans:

- What are the chances that you might outlive your lump sum cashout funds? The cashout is based on an estimate of life expectancy and assumed future investment earnings of 6.75 percent per year. You could exhaust the cashout if you live longer than expected or your invested cashout funds do not consistently earn at least 6.75 percent per year. The lump sum cashout may not be an appropriate option for you if you are not comfortable with this level of risk.
- If you have considered buying an annuity with your cashout, have you compared the annuity income with the monthly retirement income you'd receive from UCRP?
- Have you factored in the cost of paying for your own medical and dental coverage?
- What are the tax implications of electing a lump sum cashout? Pension benefits are taxable in the year in which they are paid to you. Lump sum cashout benefits could be substantial enough to require you to pay a higher percentage in state and federal taxes than you are accustomed to when you file your annual taxes. See page 7 for more information, including your options for deferring taxes by rolling the funds over to another retirement plan.

Resources

- UC provides resources to help inform your retirement decisions, at no cost to you:
- UC Retirement Administration Service Center (RASC) — Go to rasc.universityofcalifornia.edu to schedule an appointment with a RASC retirement counselor.
- UC-dedicated Fidelity Workplace Financial Consultants — Call 1-800-558-9182 or go to myUCretirement.com to schedule a meeting.
- UCnet — Go to ucnet.universityofcalifornia.edu for fact sheets, summary plan descriptions and more.

Eligibility

You're eligible to choose a lump sum cashout if you are:

- A member of the UCRP 1976 Tier
- A member of the UCRP Modified 2013 Tier (includes some represented employees; for details, find your bargaining unit's contract at ucal.us/laborrelations or contact your union)
- A member of UCRP with Safety benefits

You must also be eligible to retire (that is, age 50 or older with five years of UCRP service credit) or be an inactive or disabled member who is eligible to retire.

Note, though, that if you had a "tier" break in service and then returned to work in an eligible position as a member of the UCRP 2013 Tier or UCRP 2016 Tier, only benefits earned while you were a member of the 1976 or Modified 2013 Tier, or a member of UCRP with Safety benefits, can be taken as a lump sum cashout.

Tip:

You can estimate a lump sum cashout at various salary rates and years of service via your UC Retirement At Your Service (UCRAYS) account (retirementatyour.service.ucop.edu). If you don't have internet access, contact the UC Retirement Administration Service Center (800-888-8267) for estimates. (If you're an inactive UCRP member, you should request estimates from the UC Retirement Administration Service Center.)

How the Cashout is Calculated

Your cashout is a single amount paid to you shortly after your retirement. The amount you receive is calculated as an estimate of what you'd receive through monthly payments of basic retirement income over the course of your life. The calculation assumes future investment earnings of 6.75 percent per year up to an average life expectancy, plus 2 percent annual cost-of-living adjustments.

For example, Winston is retiring at age 60 and chose the lump sum cashout. His basic retirement income would have been \$2,000 per month, and would have been assumed to increase by 2 percent each year. His cashout amount at age 60 is a one-time payment of \$367,320. This amount comes from multiplying his basic retirement income by a factor of 183.66, i.e. $\$2,000 \times 183.66 = \$367,320$. (The 183.66 is the “Lump Sum Cashout factor” at age 60; it varies by age.)

Other Considerations

BENEFITS YOU FORFEIT WITH A LUMP SUM CASHOUT

By electing the cashout, you forfeit all future UC retirement benefits—including those that would be payable to your eligible survivors or beneficiaries at the time of your death. The forfeited benefits include:

- continued UC medical insurance (if eligible)
- continued UC dental insurance (if eligible)
- annuitant UC legal, vision or accidental death and dismemberment insurance
- basic death payment
- temporary Social Security supplement (for those hired before July 1, 2013, with benefits coordinated with Social Security, and retired prior to age 65)
- post-retirement survivor continuance (if eligible)
- contingent annuitant benefit

In addition, you don't have the option of converting unused sick leave to retirement service credit, as you do if you take retirement income on a monthly basis.

RETURNING TO UC EMPLOYMENT

In recent years, UC policies have limited retirees' ability to return to UC employment—particularly if the retiree has chosen the lump sum benefit option. In general, if you elect the lump sum cashout, you may not return to work in a career or long-term appointment at UC.

For more details, see the *Returning to UC Employment After Retirement Fact Sheet*, which you'll find at ucal.us/returntowork.

FAQs — Before You Apply

Can I elect the lump sum cashout while I'm still working?

You can't receive the cashout itself while you're still employed. But you can complete the election forms before you leave UC, as long as the effective date of your cashout is after the date your employment will end.

Is my Capital Accumulation Payment (CAP) balance included in the lump sum cashout calculation?

No. Your CAP balance, if any, is paid separately from (and in addition to) the lump sum cashout.

Can I split my UCRP benefits—taking half in a lump sum cashout and half in monthly retirement income?

Generally, no. You must choose between the cashout and monthly retirement income.

The exception is if you also have service in the 2013 or 2016 Tier of UCRP: for instance, if you were a member of UCRP before July 1, 2013, had a break in service and then returned to work in an eligible position sometime after July 1, 2013, and again became an active member of UCRP. When you retire, you'd be eligible to apply the service credit earned before July of 2013 to a lump sum cashout. Your service credit after July 1, 2013, could earn you monthly retirement income, but could not be taken in the form of a lump sum (unless you are represented by AFSCME, CNA or UPTE). And if you were to take the lump sum, you wouldn't be eligible to continue UC-sponsored health coverage for you and your family after you retire.

Can I continue medical, dental, vision, supplemental health and legal benefits if I pay the monthly premiums?

You may be eligible to continue medical, dental and vision coverage under COBRA for a limited time at applicable monthly rates. You can convert to an individual medical policy within 31 days of the date group coverage ends and you may also be able to convert your group legal coverage to an individual policy. You may port (buy and pay for) supplemental health coverage for yourself and your participating family members, with the same benefits and premium rates as your UC coverage. But you can't convert your dental or vision plan to an individual policy. To learn more about COBRA, go to ucal.us/COBRA.

How to Apply

In most cases, to request a lump sum cashout you'll need to follow the steps below. UCRP members can initiate and process their retirements electronically through UC Retirement At Your Service (UCRAYS). To learn more about how to register, log in and use UCRAYS, visit Frequently Asked Questions about UCRAYS at ucal.us/ucrasyfaq.

You may also call the UC Retirement Administration Service Center (800-888-8267) or your local Benefits Office to confirm the process, since the procedures may vary in some locations. (Inactive UCRP members should call the UC Retirement Administration Service Center.)

STEP 1:

Request a Personal Retirement Profile. Within 90 days of your retirement date, initiate your retirement by creating your Personal Retirement Profile (PRP) through UCRAYS, or submit a *Request for a Retirement Initiation Packet* form to the RASC by mail or fax. Your benefit will be calculated for the retirement date you specify, which can't be earlier than the day following your last day of UC employment. For example, if your separation date is a Friday, your earliest lump sum cashout date would be on Saturday.

Your profile will include up-to-date information summarizing your UCRP benefit options, including the lump sum cashout. Requesting the profile doesn't commit you to taking any particular retirement action. The profile is intended as a personalized planning tool to help you make informed choices.

STEP 2:

Review your retirement choices after you receive your profile. If you have any questions, you can contact the UC Retirement Administration Service Center through a UCRAYS secure message, or by phone at 800-888-8267. After you've made your decision, complete the personalized benefit election form provided to you. Note that this is the part of the process when you need to make a final decision: The lump sum cashout decision is irrevocable from the date specified on your election form, or—if this date is later—15 days after the date of the confirmation statement that the UC Retirement Administration Service Center will send you. (See below.)

STEP 3:

Complete your election on UCRAYS (or submit your election form by mail or fax). When the election process is complete, the service center will send you a letter confirming your benefit amount and the date you can expect your cashout check. In general, if you submit your election form and any necessary documentation three months before your cashout date, you should receive your payment at the beginning of the month after the month of your cashout date. So if your cashout date is July 1, you should receive your payment at the beginning of August.

Taxes

Your lump sum cashout benefit will be subject to both federal and state income taxes in the year that you receive it. Unless you arrange for a direct rollover of your money (see below), the law requires that 20 percent federal income tax be withheld from your distribution.

Also, an early distribution penalty tax (10 percent federal and 2½ percent California) may apply unless you qualify for an exception based on circumstances, including, but not limited to:

- You're at least age 59½ on the cashout date
- You're at least age 55 at the end of the calendar year in which you leave UC employment or
- You're permanently disabled

The penalty tax doesn't apply to any part of the cashout that you roll over.

If you contributed to the Plan on an after-tax basis (i.e., you made contributions before July 1, 1983, or after-tax payments for service credit purchase), you've already paid taxes on the part of the cashout that represents a return of those contributions. So you won't be taxed on that portion again.

On the taxable amount that you do not directly roll over, 20 percent federal tax will be withheld, as required by law. California state tax will be withheld at 10 percent of the federal rate unless you specify otherwise.

The lump sum cashout is subject to defined benefit limits under section 415 of the Internal Revenue Code (IRC). This section of the code limits the total benefits payable in any calendar year from a defined benefit plan such as UCRP. However, UC's 415(m) Restoration Plan—a non-qualified pension plan—was established to pay UCRP benefits that would not otherwise be payable under the section 415(b) limit. If your lump sum cashout is affected by the section 415(b) limit, you'll receive additional information about the 415(m) Restoration Plan during the election process.

To learn more about your rollover options and tax withholding, see the *Special Tax Notice for UC Retirement Plan Distributions* at ucal.us/specialtaxnotice.

Rollover Options

You may roll over the cashout into any of the following:

- UC's Defined Contribution (DC) Plan (pretax and after-tax rollovers; available only if your resulting plan balance will be at least \$2,000)
- UC's Tax-Deferred 403(b) Plan (pretax and after-tax rollovers; available only if your resulting plan balance will be at least \$2,000)
- UC's 457(b) Deferred Compensation Plan (pretax rollovers only; available only if your resulting balance will be at least \$2,000)
- A traditional IRA or another employer's 401(a), 401(k), 403(b), or governmental 457(b) plan

Before rolling over the after-tax portion of your cashout (if any), you'll need to confirm that the plan receiving it accepts after-tax rollovers. On any part of the cashout that you directly roll over, taxes won't be withheld. Unless the rollover is to a Roth IRA, taxes will be deferred until you take the money out. For rollovers to a Roth, the taxable part of the cashout will be taxed the year you receive it.

If you are subject to a Required Minimum Distribution (RMD) the year in which you separate from UC and elect a rollover of all or a portion of your lump sum cashout, a taxable distribution equal to the RMD amount will be issued as a separate payment. Please see the *Special Tax Notice for UC Retirement Plan Distributions* for more information.

If you were to die before submitting the election form, the cashout election would not be available to your survivors. For more details, please see the *UC Retirement Plan 1976 Tier Summary Plan Description for Members With Social Security* at ucal.us/1976tiersummary.

Have You Named Your Beneficiary?

If you were to die after you elected the lump sum cashout but before you received payment, the cashout would be paid to your designated beneficiary. You can designate a beneficiary via your UC Retirement At Your Service (UCRAYS) account (retirementatyour.service.ucop.edu).

