

DROP/ILSB accounts

Information on withdrawals and interest

DROP/ILSB withdrawals

When can I make them?

DROP/ILSB account withdrawals can begin after your participation in DROP ends and you terminate employment, or you choose an Initial Lump-Sum Benefit (ILSB) retirement.

Once you are eligible to start withdrawals, it is important that TRSL receives your completed withdrawal application at least 30 days before the disbursement of funds:

- **If you are younger than 72 by year end:**
Use *DROP or ILSB Retiree Withdrawal Method Selection* (Form 11J)
- **If you are 72 or older by year end:**
Use *DROP or ILSB Retiree Withdrawal Method Selection* (Form 11N)

When are they paid?

Withdrawals from DROP/ILSB accounts are paid on the 15th of each month, and are disbursed according to the withdrawal method you select. Withdrawals can begin following payment of your first monthly TRSL retirement benefit. The federal SECURE Act of 2019 increased the age to begin required minimum distributions (RMDs) from 70½ to 72, effective with those turning 70½ in 2020.

Are there requirements?

There are specific requirements about when DROP/ILSB retirees must begin taking withdrawals. These requirements are based upon the age of the retiree at the time of retirement.

- **If you are younger than 72 in the year of your retirement:** You must begin withdrawing at least the minimum amount within 12 months after retirement.
- **If you are 72 or older in the year of your retirement:** You must begin withdrawing a minimum amount by April 1 of the calendar year following your date of retirement **or** within 12 months after retirement, whichever is earlier. Failure to do so will subject you to an excise tax of 50% of the difference between the required withdrawal amount and the actual withdrawals made during the year.

Withdrawal requirements based on life expectancy

See the *IRS Single Life Expectancy Table* below and *Required Minimum Distribution* sections in this publication for more information about withdrawal requirements and tax penalties.

Also, keep in mind that IRS regulations require you to withdraw your entire DROP/ILSB account balance within your projected life expectancy, which is based on your age at retirement. The *IRS Single Life Expectancy Table*, a portion of which is shown below, shows the required number of monthly/annual payouts by age at retirement.

- **Withdrawals sufficient to exhaust the account balance within a retiree's projected lifetime or a period of 10 years or more:** Not subject to the mandatory 20% federal withholding tax, nor are they eligible for rollover to another qualified plan.
- **Withdrawals that will exhaust the account balance in less than 10 years:** Subject to the mandatory 20% federal withholding tax, but can be rolled over into another qualified plan.

NOTE: Members older than 72 in the year of retirement may be able to withdraw less than required by the IRS Single Life Expectancy Table.

Portion of the IRS Single Life Expectancy Table
for those who retired on or after January 1, 2003

Age at retirement	Required number of payouts:		Age at retirement	Required number of payouts:	
	in mos	in yrs		in mos	in yrs
50	410	34.2	63	272	22.7
51	399	33.3	64	261	21.8
52	387	32.3	65	252	21.0
53	376	31.4	66	242	20.2
54	366	30.5	67	232	19.4
55	355	29.6	68	223	18.6
56	344	28.7	69	213	17.8
57	334	27.9	70	204	17.0
58	324	27.0	71	195	16.3
59	313	26.1	72	186	15.5
60	302	25.2	73	177	14.8
61	292	24.4	74	169	14.1
62	282	23.5	75	160	13.4

According to the table, a 58-year old retiree with a DROP account balance of \$84,500 would have the following required minimum withdrawal amount:

MONTHLY: \$84,500 ÷ 324 months = \$260.80
ANNUALLY: \$84,500 ÷ 27 years = \$3,129.63

If the table does not list your age, contact TRSL or refer to the **IRS Publication 590, Individual Retirement Arrangements (IRAs)**.

How often can I take a withdrawal?

Monthly withdrawals:

Can be taken in an amount determined by your life expectancy **or** an amount specified by you to last for a period less than your life expectancy. This periodic payment cannot vary from month to month, but once in every 12-month period you have an opportunity to increase the amount.

Annual withdrawals:

Can be taken in an amount determined by your life expectancy **or** an amount specified by you to last for a period less than your life expectancy. This periodic payment cannot vary from year to year, but once in every 12-month period you have an opportunity to increase the amount. You select the month in which the payment is made.

NOTE: Whether monthly or annually, the first payment has to be made within the 12-month period immediately following the end of your DROP participation and termination of employment.

Partial single-sum withdrawals:

Can be taken once in the lifetime of you or your spousal beneficiary in an amount to be determined by you. See the **Required Minimum Distribution (RMD)** section for more information about single-sum withdrawals.

- **If taken when beginning withdrawals**, the balance of the account has to be taken out monthly or annually not to exceed your life expectancy.
- **If taken after withdrawals have begun**, the previous monthly or annual withdrawal cannot be decreased. Taking a partial single sum may change the way taxes are withheld from future monthly or annual withdrawals. This could result in a change from a voluntary federal income tax withholding to a mandatory 20% federal income tax withholding. In order to take a partial single sum after withdrawals have begun, certain conditions must be met: You must have been at least age 55 at retirement, or you must be at least age 59½ at the time you receive the partial single sum.

Spousal Consent Required for partial single-sum withdrawals: *If you are married when you take a partial single-sum withdrawal, your spouse will need to sign a DROP or ILSB Retiree Spousal Consent to Withdrawal Method (Form 11G-1).*

Total account balance withdrawals:

Can be taken at any time after ending DROP participation and terminating employment or retiring under ILSB, even after beginning a series of withdrawal payments. There are potential tax issues if you do this. Check with TRSL for more information.

Total account balance withdrawals or withdrawals that are scheduled to be paid out over a period of less than 10 years are subject to a mandatory 20% withholding for federal income tax unless TRSL transfers the withdrawal directly to a rollover-eligible plan. See TRSL's *Special Tax Notice* for more tax information related to your DROP/ILSB withdrawal.

Plans eligible for rollover

- Internal Revenue Code (IRC) Section 401(a)
- IRC Section 401(k)
- IRC Section 403(b) tax-sheltered annuities
- IRC Section 457 governmental deferred compensation plans
- Roth IRAs
- IRC Section 408(a) traditional IRAs

Plans that are ineligible for rollovers are Simple IRAs and Coverdell Savings Accounts.

Changing the withdrawal method and/or amount

You have one opportunity in a 12-month period to change the periodic withdrawal method and/or amount.

- Disbursements should always be greater than the previous amount of the periodic payment, unless you retired before January 1, 2003, and are now age 72 or older. Call TRSL for more information on this situation.
- You can make a total withdrawal of all funds in the DROP account at any time following termination of employment, even after periodic withdrawals have begun.

EXAMPLE: *You are under age 55 and elect to receive your distribution for life. If, within the next five years (or before you are age 59½), you change the payout schedule to less than life, you will be subject to a federal recapture tax of 10% plus interest on all the amounts you received prior to age 59½.*



Want to delay withdrawals?

See "Can I delay withdrawing from my account?" on Page 4 of this publication.

Required Minimum Distribution (RMD)

The Tax Reform Act of 1986 established minimum required pension distributions for retirees who are 70½ or older at the time of retirement. The federal SECURE Act of 2019 increased the age to begin RMDs from 70½ to 72, effective with those turning 70½ in 2020. If such a retiree does not receive all of his or her account as payouts during the life expectancy (or less) following retirement, the federal government will charge the retiree an excise tax equal to 50% of the difference between the required distribution and the actual distribution during each year following retirement.

If you retire and your actual distribution from your DROP/ILSB account begins in the calendar year that you reached age 72 or later, you must receive a RMD each calendar year. RMD is not rollover eligible. If you retire on or after January 1, 2003, withdrawals are calculated using the *IRS Single Life Expectancy Table* on page 1.

Two additional tables, available in *IRS Publication 590, Individual Retirement Arrangements (IRAs)*, designate conditions that may lower your withdrawal amount:

- **Uniform Lifetime Table:** Use if you are no more than 10 years older than your spouse, regardless of whether he or she is the sole beneficiary.
- **Joint Life and Last Survivor Expectancy Table:** Use if you are more than 10 years older than your spouse, or your designated beneficiary is not your spouse.

Partial single-sum withdrawals

If you must meet a RMD and you choose a partial single sum when you begin withdrawals, the partial single sum will be used to meet your RMD first. The partial single-sum amount chosen can exceed, equal, or be less than the RMD.

If the partial single-sum amount exceeds the RMD:

- The excess portion is rollover-eligible. If it is received directly by you, it will be subject to 20% withholding when paid.

EXAMPLE: *Your RMD equals \$8,000. You choose a partial single sum of \$10,000 and elect to receive the balance of your account monthly. The \$8,000 of your partial single sum is not rollover eligible and is used to meet your RMD. The \$2,000 remaining is rollover eligible and is subject to 20% withholding if TRSL pays it directly to you. The monthly or annual distribution chosen must equal at least \$8,000 when paid out over a calendar year (12 months).*

If the partial single-sum amount equals the RMD:

- The entire partial single sum is used to meet the RMD. No portion is eligible for rollover. In succeeding years, the monthly or annual amount chosen must equal at least the RMD when paid out over a calendar year (12 months).

If your partial single-sum amount is less than the RMD:

- The entire partial single sum is used to meet the RMD, and the monthly or annual amount chosen is used to meet the remaining balance of the RMD. In succeeding years, the monthly or annual amount chosen must equal at least the RMD when paid out over a calendar year (12 months).

In cases where you are already withdrawing and choose to make a partial single-sum withdrawal, the partial single sum will be used to complete the RMD for the calendar year. If there is any amount remaining in excess of the RMD, this

portion of the partial single sum will be rollover eligible. It is best to consult with TRSL regarding the partial single sum and the required minimum distribution prior to selecting your withdrawal method.

Interest on DROP/ILSB accounts

How much interest does my account earn?

DROP/ILSB accounts become eligible to earn interest once your DROP participation ends or you take an ILSB retirement. Members earn interest on their accounts based upon when they were eligible to participate in DROP or ILSB.

Eligible to participate before January 1, 2004:

- These accounts earn 0.50% less than TRSL's actuarially realized rate of return. Interest is posted once a year, usually between January and March, and is based on the daily account balance. However, the Public Retirement Systems' Actuarial Committee (PR SAC) must approve the interest rate before it can be posted. The committee usually meets no later than February, following the end of each fiscal year. No interest is lost during this time.
- TRSL will notify you by mail once interest is posted. For members receiving interest who previously withdrew all of their DROP or ILSB funds, the letter will also include instructions on how to withdraw the interest.

Eligible to participate on or after January 1, 2004:

- These accounts earn interest at the liquid asset money market rate less a 0.25% administrative fee.
- Interest is posted to the account monthly and is based on the balance in the account for that month. If a member chooses a total account balance withdrawal, interest factors will be projected for the last two to four days before the payroll date to allow time for processing.

REMEMBER: *Your DROP account information, including posted interest, is available online through your Member Access account.*

DROP and ILSB interest rates (2014-2019)		
Fiscal year	Members eligible to participate before January 1, 2004	Members eligible to participate on or after January 1, 2004
2019	6.98%	1.8940%
2018	8.98%	0.9538%
2017	8.65%	0.2214%
2016	6.17%	0.5950%
2015	10.76%	0.0000%
2014	12.64%	0.0000%

A complete list of interest rates is available at www.TRSL.org

Can I delay withdrawing from my account ?

If you delay beginning your DROP/ILSB withdrawals or your first payment was delayed until you received your first monthly benefit, your first DROP/ILSB withdrawal will include a **retroactive amount** equal to the withdrawals that would have been made during the delay period. The delay period is the months between your retirement date and the date your DROP/ILSB withdrawals began.

- **If you are less than age 72 in the calendar year in which you retire:** You can delay taking withdrawals for up to 11 months after your retirement date.
- **If you are 72 or older in the calendar year in which you retire:** You can delay withdrawals up to 11 months or April 1 of the calendar year following your date of retirement, whichever occurs first.

What happens to my account upon my death?

Your accumulated DROP benefits will be paid to your designated beneficiary(ies) upon your death.

For spousal beneficiary(ies):

- **If you have not begun withdrawals at the time of your death:** Your spousal beneficiary will need to select a withdrawal method by submitting a *DROP or ILSB Retiree Spousal Beneficiary Request for Withdrawal Selection* (Form 11K-S). The time period for withdrawals will be based on your spouse's age and cannot be longer than that shown in the life expectancy table.
- **If withdrawals have already begun:** Your spouse will need to submit a *DROP or ILSB Retiree Spousal Beneficiary Request for Withdrawal* (Form 11M-S). Your spouse can continue the same withdrawals or make any changes you would have been able to make.

For nonspousal beneficiary(ies):

A nonspousal beneficiary must withdraw the total DROP/ILSB account balance by submitting a *DROP or ILSB Retiree Nonspousal Beneficiary Request for Withdrawal Selection* (Form 11K).

For nondesignated beneficiary(ies):

Should you die without a beneficiary, the account balance will be payable to your estate. If your spouse or nonspousal beneficiary dies after you, any remaining account balance will be paid to your beneficiary's estate.

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This is an electronic document. The Teachers' Retirement System of Louisiana did not incur any printing costs.

Other important information

Direct deposit of your DROP/ILSB withdrawals

State law requires TRSL benefit payments to be made by direct deposit. Please complete and submit to TRSL a *Direct Deposit of DROP or ILSB Account Withdrawals* (Form 11R) to set up direct deposit with your bank.

- DROP/ILSB payments are made available for deposit into your bank on the 15th of the month. If the 15th falls on a weekend or holiday, the direct deposit is available for your financial institution to post to your account on the next business day. Contact your bank if you need account information regarding the posting of your payment.

Need to change your DROP/ILSB bank information?

- Complete a new Form 11R with your updated bank information. All TRSL forms are available on our website at www.TRSL.org.

Tax consequences of withdrawals

The manner in which funds are withdrawn from DROP/ILSB accounts can have serious tax consequences.

- TRSL recommends that you consult a qualified tax advisor before making any decisions about withdrawing your funds. TRSL staff are also available to discuss the options available to you when deciding how to withdraw from your DROP/ILSB account.
- **Federal income tax:** Taxes are deferred on DROP/ILSB account deposits and become due as funds are withdrawn. TRSL reports withdrawals to the IRS at the end of each calendar year. DROP/ILSB withdrawals must be made in accordance with IRS regulations and established TRSL rules and regulations.
- **State income tax:** Your DROP/ILSB withdrawal amount is exempt from Louisiana state income tax if TRSL pays it directly to you. However, if you roll these funds over to a rollover-eligible plan and later withdraw them from the plan, state income tax applies to any withdrawals from that plan.

Spousal consent

If you are married and you withdraw your funds over a period of less than your life expectancy, your spouse must sign the *DROP or ILSB Retirees Spousal Consent to Withdrawal Method* (Form 11G-1).