

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 73 by year end:**
Use *DROP or ILSB Retiree Withdrawal Method Selection* (Form 11J)
- **If you are 73 or older by year end:**
Use *DROP or ILSB Retiree Withdrawal Method Selection* (Form 11N)

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 73 in the year of your retirement:** You must begin withdrawing at least the minimum amount within 12 months after retirement.
- **If you are 73 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 25% of the difference between the required withdrawal amount and the actual withdrawals made during the year.

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 2022 increased the age to begin required minimum distributions (RMDs) from 72 to 73, effective with those turning 72 in 2023.*

Withdrawal requirements based on life expectancy

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.

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.

Portion of the IRS Single Life Expectancy Table
for those who retired on or after January 1, 2022

Age at retirement	Required # of payouts		Age at retirement	Required # of payouts	
	in months	in years		in months	in years
50	434	36.2	63	294	24.5
51	423	35.3	64	284	23.7
52	411	34.3	65	274	22.9
53	400	33.4	66	264	22.0
54	390	32.5	67	254	21.2
55	379	31.6	68	244	20.4
56	367	30.6	69	235	19.6
57	357	29.8	70	225	18.8
58	346	28.9	71	216	18.0
59	336	28.0	72	206	17.2
60	325	27.1	73	196	16.4
61	314	26.2	74	187	15.6
62	304	25.4	75	177	14.8

NOTE: Members 73 or older, in the year of retirement, may be able to withdraw less than required by the *IRS Single Life Expectancy Table*.

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

EXAMPLE: According to the table above, a 59-year-old retiree with a DROP account balance of \$84,500 would have the following required minimum withdrawal amount:

- **MONTHLY:** $\$84,500 \div 336 \text{ months} = \251.49
- **ANNUALLY:** $\$84,500 \div 28 \text{ years} = \$3,017.86$

How often can I take a withdrawal?

MONTHLY withdrawals:	<p>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.</p> <p>This periodic payment cannot vary from month to month, but once in every 12-month period you can increase the amount.</p>
ANNUAL withdrawals:	<p>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.</p> <p>This periodic payment can only increase once every 12-month period. You select the month in which the payment is made.</p>

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:	<p>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.</p> <ul style="list-style-type: none"> • 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.
TOTAL ACCOUNT BALANCE withdrawals:	<p>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.</p> <p>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 <i>Special Tax Notice</i> for more tax information related to your DROP/ILSB withdrawal.</p>



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 *ineligible* for rollovers:

- Simple IRAs
- Coverdell Savings Accounts

Changing the withdrawal method 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 are now age 73 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.

Required Minimum Distribution (RMD)

The Tax Reform Act of 1986 established required minimum distributions (RMDs) for retirees once they reach a certain age. The federal SECURE Act of 2022 increased the age to begin RMDs from 72 to 73, effective with those turning 72 in 2023. 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 25% 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 73 or later, you must receive a RMD each calendar year. RMD is not rollover eligible. 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 RMD 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 (PRSAC) 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/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 secure Member Access account.

DROP and ILSB interest rates (2018-2024)		
Fiscal year	Members eligible to participate before January 1, 2004	Members eligible to participate on or after January 1, 2004
2024	6.51%	4.9703%
2023	6.29%	3.4197%
2022	8.46%	0.1000%
2021	12.15%	0.0000%
2020	6.30%	1.0797%
2019	6.98%	1.8940%
2018	8.98%	0.9538%

See a complete list of interest rates at www.TRSL.org.

What happens if I don't begin withdrawals immediately after retirement?

As shown on page 1, there is a specific timeframe in which DROP/ILSB retirees must begin taking withdrawals that is based upon age at the time of retirement. If you begin withdrawals later, but still within the required timeframe, your first DROP/ILSB withdrawal may include a **retroactive amount** equal to the withdrawals that would have been made from the time you were immediately eligible to take them.

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.

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/forms.

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 here 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.

Last revised April 2025

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