LEGISLATORS' SYSTEM AT A GLANCE

LEGISLATORS' RETIREMENT SYSTEM

Participating in the Fund

The Legislators' Retirement System (LRS) was designed especially for your needs as a state legislator. Prior to the creation of the LRS in 1989, state legislators participated in the general INPRS retirement system. If your service in the General Assembly was completed before April 30, 1989, you will continue as a member of INPRS and will not participate in the LRS. Within the Legislators' Retirement System is a Defined Benefit Plan and a Defined Contribution Plan. Your participation in one or both of these plans depends on when you served in the Indiana General Assembly, as described below.

If you began serving in the General Assembly AFTER April 30, 1989

As a member of the General Assembly who began service after April 30, 1989, or who elected coverage under IC 2-3.5-3-1(b), you are entitled to be covered under the Defined Contribution Plan. Participants in this plan include both those who are new to the General Assembly and those who served before April 30, 1989 (but terminated prior to that date), and returned to service after April 30, 1989.

Members of the General Assembly who are elected or appointed after April 30, 1989, or who were serving on this date and elected to participate, participate in the Defined Contribution Plan. This retirement savings program bases benefits on pre-determined employee and employer contributions and the investment performance of those contributions.

The Defined Contribution Plan

The Defined Contribution Plan applies to legislators who were elected or appointed after April 30, 1989, or who were in service on this date and elected to participate in this new plan.

Plan Provisions

Contributions

This plan is financed by contributions made by you, as a member, and your employer, the state of Indiana. As a member of the Defined Contribution Plan, you and your employer are required by statute to contribute a specified amount to your LRS account.

Employee Contributions
You must contribute 5 percent of your salary for your service after June 30, 1989.

Employer Contributions
The state also makes a contribution on your behalf. It is determined by multiplying your salary for that year by a percentage determined by the INPRS board and confirmed by the budget agency not to exceed the total contribution rate paid that year by the state to INPRS for state employees.

Transferring Contributions—INPRS/TRF Service
On July 1 following the date you become a member of the Defined Contribution Plan, you may elect to transfer the amount in your INPRS or Teachers' Retirement Fund (TRF) Annuity Savings Account to the Defined Contribution Plan. This amount will then be credited to your account.

Withdrawing Your Account

The Defined Contribution Plan's member account balance may be withdrawn at any time following separation of service in the General Assembly. You may select only one of the five options available.

Federal Tax Provisions

Withdrawal options are subject to mandatory provisions of federal tax law regarding required beginning date and minimum required distributions, as follows:

- When you reach age 70 1/2 or retire, whichever is later, a certain portion of your account cannot be rolled over because it is a required minimum payment that must be paid to you.
- If you choose to have a payment paid directly to you and any portion of your payment is eligible to be rolled over, you will receive only 80 percent of the taxable amount of the payment. LRS is required to send the IRS 20 percent to be credited against your taxes for the year in which you receive the payment. However, if you decide to roll that payment into an eligible IRA or an eligible employer plan within 60 days of receiving your payment, it will not be taxed until you withdraw the funds from the respective plan.
- If you decide to have your payment paid directly to you before age 59 1/2, you may also have to pay an additional 10 percent early withdrawal penalty. Generally, the additional 10 percent tax may not apply to (1) payments that are paid after you separate from service with your employer during or after the year you reach age 55; (2) payments that are paid because you retire due to disability; (3) payments that are paid as equal (or almost equal) payments over your life expectancy (or your and your beneficiary's life expectancies); (4) payments that are paid directly to the government to satisfy a federal tax levy; or (5) payments that do not exceed the amount of your deductible medical expenses. See IRS Form 5329 for more information on the additional 10 percent tax.

Income Taxes

- You will receive special tax treatment if you were born before Jan. 1, 1936. As previously mentioned, if you receive a payment from a plan qualified under section 401(a) or a section 403(a) annuity plan that can be rolled over and you do not roll it over to an eligible IRA or an eligible employer plan, the payment will be taxed in the year you receive it. However, if the payment qualifies as a "lump sum distribution," it may be eligible for special tax treatment. A lump sum distribution is a payment, within one year, of your entire balance under the plan that is payable to you after you have reached age 59 1/2 or because you have separated from service with your employer. For a payment to be treated as a lump sum distribution, you must have been a participant in the plan for at least five years before the year in which you received the distribution. The special tax treatment for lump sum distributions that may be available to you is described below.

If you receive a lump sum distribution and you were born before Jan. 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging"(using 1986 tax rates). Ten-year averaging often reduces the tax you owe.	**Ten-Year Averaging**
If you receive a lump sum distribution and you were born before Jan. 1, 1936, you may be able to elect to have part of your payment taxed as long-term capital gain at a rate of 20 percent. See IRS Form 4972 for additional information on lump sum distributions and how you elect the special tax treatment.	**Capital Gain Treatment**

Income Taxes, continued

There are other limits on the special tax treatment for lump sum distributions. Please see IRS Form 4972 for additional information on lump sum distributions and how you elect the special tax treatment.

Special Tax Notice Regarding Rollovers

A rollover is a payment of all or part of your benefit to an eligible employer plan or an eligible IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. If you choose a direct rollover, your payment will not be taxed in the current year and no income tax will be withheld. An "eligible employer plan" includes a plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan).

Please note that an eligible employer plan is not legally required to accept a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions, such as after-tax amounts. If this is the case and your distribution includes after-tax amounts, you may wish instead to roll your distribution over to an eligible IRA, or split your rollover amount between the employer plan in which you will participate and an eligible IRA.

Be sure to check with the administrator of the plan that is to receive your rollover prior to making the rollover.

Obtaining Additional Information

The tax consequences described above are complex and contain many conditions and exceptions that are not included in this notice. There are also state and local tax rules that might apply to your payment. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from the Legislators' Retirement System.

More detailed tax information is included in the LRS Application for Withdrawal of Contributions. Also, you can find more specific information on the tax treatment of payments from qualified employer plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements.

Note: These publications are available from your local IRS office, on the IRS Web site at http://www.irs.gov/, or by calling (800) TAX-FORMS.

Please call us toll-free at (888) 526-1687 if you have specific questions regarding your retirement benefits.

Death Benefits

Your account will be paid to your designated beneficiary or beneficiaries if you die either while a member of the General Assembly or after terminating service without having withdrawn your account from the fund. If there is no beneficiary, or if the beneficiary does not survive you, the account will be paid to your surviving spouse or your surviving dependent(s). If there is no surviving spouse or surviving dependents, your account will be paid to your estate.

The Defined Benefit Plan

The Defined Benefit Plan guarantees a lifetime monthly benefit to employees who meet eligibility requirements. This plan applies only to legislators who were members of the General Assembly before April 30, 1989, or on April 30, 1989, and chose to participate. Employer contributions and their investment earnings fund the Defined Benefit Plan.

Eligibility Requirements

Vested Status
In order to receive a monthly retirement from the Defined Benefit Plan, members must have served for 10 or more years in the General Assembly.

Normal Retirement with Unreduced Benefits
Members may not receive compensation from the state for work in any capacity, and may not receive or may not have previously received a reduced monthly benefit under this plan. You must be:

- At least age 65 with 10 years or more of creditable service as a member of the General Assembly (or meet the requirements for disability benefits under this plan); or
- At least age 60 with at least 15 years of service as a member of the General Assembly; or
- At least age 55 and your years of service plus your age equal at least 85.

Early Retirement with a Reduced Pension Benefit
If you wish to retire early, your pension benefit will be reduced by a formula based on your age if you are at least age 55 as long as you:

- Have terminated service in the General Assembly,
- Are not receiving, nor are entitled to receive, compensation from the state for work in any capacity and;
- Have achieved vested status, or 10 years of creditable service.

Retiring from the Plan

Your retirement date may not be more than six months before the date your retirement application is received by the board.

Disability Benefits
If you become disabled while in active service as a member of the General Assembly, you may receive a disability benefit if you:
- Have at least five years of creditable service as a member of the General Assembly,
- Have qualified for Social Security disability benefits and have furnished your Social Security award letter to the INPRS board, and
- Have your continued disability verified by a board representative at least one time each year until you reach age 65.

Survivor Benefits
If you die while receiving benefits under the Legislators' Retirement System, your surviving spouse is entitled to receive a survivor's benefit if you had completed 10 years of creditable service as a member of the General Assembly, regardless of your age.

Income Taxes

Taxation of Monthly Installments
All of the monthly benefit payable from the Defined Benefit plan is taxable income. The Plan will report to you each year on a Form 1099-R the taxable income associated with your benefits.

Tax Notice
The taxation rules are complex, so if you need additional information, you should obtain IRS Publication 575; or, if you need further assistance, you should contact your local IRS office or a tax consultant.