North Carolina Retirement Systems

Form DB228
Tax Treatment for a Payment of Undistributed Contributions Due to a Death

Print or type in black ink. No erasures, strikeovers or whiteouts permitted. Do not staple pages.

Section A. Tell us about yourself.

Our records show that you are a beneficiary of:		
Member's Full Name	Member ID	Member SSN

Your personal information:				
First Name	M.I.	Last Name		Suffix
Mailing Address			Date of Birth	SSN
City	State	Zip Code	Phone (At least one phone required)	Mobile (At least one phone required)
Personal Email Address				Member ID

Section B. Check the Retirement System that applies.

If more than one, you must fill out a separate form for each retirement system account.

☐	Teachers' and State Employees' Retirement System (TSERS)	☐	Consolidated Judicial Retirement System (CJRS)
☐	Local Governmental Employees' Retirement System (LGERS)	☐	Legislative Retirement System (LRS)

Section C. Choose the tax treatment for this one-time payment.

1. How do you choose to treat your payment of undistributed contributions? (Check one)

☐ 1A. **I want the entire amount paid to me.**

- I understand that federal law requires the Retirement System to withhold federal income taxes from the taxable portion of the undistributed contributions at the rate of 20%.
- I understand that additional federal taxes may also apply to this payment. If I am a resident of North Carolina, I understand that North Carolina income tax law generally requires the Retirement System to withhold 4% of the amount taxable for federal tax. However, per the Bailey Class Action Settlement, no North Carolina income tax will be withheld if the member had maintained five (5) or more years of creditable service in the Retirement System as of August 12, 1989. The Retirement System is unable to withhold income tax for other states.
- If I am not a resident of North Carolina, I understand I have a choice to have North Carolina income taxes withheld by the applicable formula, described above, by checking the YES box below.

If you are not a resident of North Carolina, do you want North Carolina income tax withheld?

☐ Yes ☐ No

- *If you checked number 1a above, skip to Section E.*

☐ 1B. **I want all or part of my distribution directly rolled over to my eligible IRA if I am a non-spouse beneficiary or to my eligible IRA or my other eligible employer plan, if I am a surviving spouse.**

- I will complete my rollover information in Section D.

Continue to the next page.

Section D. If you choose a rollover, complete the information below.

If you are having the entire amount paid to you, skip to Section E.

2. How do you choose to treat your rollover?

- If you are a surviving spouse, you may roll over eligible contributions to an eligible IRA or other eligible employer plan(s).
- If you are a non-spouse beneficiary, you may only roll over eligible contributions to an eligible IRA.

☐ 2A. **I want the entire taxable portion directly rolled over.**

- I will name my rollover plan in number 3 below and submit a rollover acceptance letter with this application (see Guide A).
- I understand that if there is a previously taxed portion, it will be paid to me unless I elect to roll over the previously taxed amount in number 4 below.

☐ 2B. **I want only part of the taxable portion of my payment directly rolled over, and the remainder of the taxable portion paid to me.**

- I will name my rollover plan in number 3 below and submit a rollover acceptance letter with this application (see Guide A).
- I understand that if there is a previously taxed portion, it will be paid to me unless I elect to roll over the previously taxed amount in number 4 below.

If you only want part of the taxable portion rolled over, what is the dollar amount of the taxable portion you want to roll over?

I understand that the Retirement System must withhold taxes according to federal and state laws described in Section C and in the Guides on the portion paid directly to me. If you are not a resident of North Carolina, do you want North Carolina income tax withheld?

☐ Yes ☐ No

3. If you choose to roll over any part of the taxable portion of your payment, what is the name of your rollover plan for the taxable portion of your payment?

What type of plan did you list above? (check one)

- *If you choose to roll over any taxable portion of your payment to a Roth IRA, please see Guide B for information on federal taxes you may owe.*

☐ Roth IRA ☐ Traditional IRA ☐ Eligible Employer Plan (surviving spouse only)

4. If there are previously taxed contributions, I want to roll over the previously taxed portion of my payment to my rollover plan listed below.

- I will name my rollover plan below and submit a rollover acceptance letter with this application (see Guide A).

What is the name of your rollover plan for the previously taxed portion of your payment?

What type of plan did you list above? (check one)

☐ Roth IRA ☐ Traditional IRA ☐ Eligible Employer Plan (surviving spouse only)

Continue to the next page.

Section E. Authorize with your signature.

I certify that I have read, or had read to me, the information contained in this form and the Guides including the Special Federal Tax Notice. I understand that if the member had any overpayment amount due, my benefit will be reduced by the overpayment amount before any remaining balance (if any) is paid to me or rolled over. Furthermore, I understand that my payment cannot be processed until this form has been completed and all necessary information has been received. I also understand that my elections as indicated above cannot be changed after my payment has been issued. I certify by my signature that I have completed the applicable sections on pages 1 and 2 of this form.

Signature _____ Date _____

Section F. Have this form notarized. Improperly notarized forms will not be accepted.

State of _____ County of _____

I, _____, a notary public for said State and County, do hereby certify

that _____ personally appeared before me this date and acknowledge

the due execution of this form. Witness my hand and official seal this the _____ day of

_____, 20 ____. My Commission Expires _____

Signature of Notary _____

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Section G. You must submit all pages.

You may mail the completed form to the address below.

Submit the completed form by mail or email.

N.C. Department of State Treasurer, Retirement Systems Division
3200 Atlantic Avenue, Raleigh, North Carolina 27604
NC.Retirement@nctreasurer.com • (919) 814-4590

North Carolina Retirement Systems

Form DB228 Guides
Tax Treatment for a Payment of Undistributed Contributions Due to a Death

Guide A. Summary of Federal Tax Rules for Lump Sum Distributions.

In general, the federal tax rules that apply to lump sum payments to Retirement System members also apply to lump sum payments to surviving spouses of members. Some of the federal tax rules also apply to a deceased member's beneficiary who is not a spouse. The differences in the federal tax rules for payments to surviving spouses and other beneficiaries are summarized below.

If you are a surviving spouse.
If you receive a payment from the Retirement System as the surviving spouse of a deceased member, you have the same rollover options that the member would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½ (if you were born before July 1, 1949), age 72 (if you were born on or after July 1, 1949 and before January 1, 1951), or age 73 (if you were born after December 31, 1950).

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the member had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the member had not started taking required minimum distributions from the Retirement System, you will not have to start receiving required minimum distributions from the inherited IRA until the year the member would have been age 70½ (if the member was born before July 1, 1949), age 72 (if the member was born on or after July 1, 1949 and before January 1, 1951), or age 73 (if the member was born after December 31, 1950).

If you are a surviving beneficiary other than a spouse.
If you receive a payment from the Retirement System because of the member's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

If the estate is the beneficiary, the distribution cannot be rolled over. The executor or administrator of the estate should submit all of the following documents together to the Retirement Systems Division:

- Completed Form DB228
- Letters of Testamentary, Papers of Administration, or Affidavit for the Collection of Personal Property that contains a visible seal from the Clerk of Superior Court
- Employer Identification Number (EIN) for the estate and proof of EIN, which can be obtained from the Internal Revenue Service (IRS)

If the beneficiary is a trust, the distribution may be rolled over directly to an inherited IRA if all Internal Revenue Code (IRC) regulations and requirements have been met, including that the beneficiaries of the trust constitute "designated beneficiaries" within the meaning of IRC Section 401(a)(9) rules. Generally trust beneficiaries will be treated as having been designated as beneficiaries for this purpose if the trust: (1) is a valid trust under state law, (2) is irrevocable, and (3) identifies the beneficiaries.

Before initiating paperwork for processing a direct rollover to a trust, we recommend that the trustee contact an attorney, accountant, or tax professional for assistance in determining that the trust and designated trust beneficiaries meet all IRC requirements, and if so, then assemble the required rollover documents described below, along with all of the following documents:

- Completed Form DB228
- Copy of the trust
- Employer Identification Number (EIN) for the trust and proof of EIN, which can be obtained from the Internal Revenue Service (IRS)

The trustee should submit all required documents together to the Retirement Systems Division.

Guide B. Special Federal Tax Notice regarding refunded retirement contributions.

YOUR ROLLOVER OPTIONS

You are receiving this notice because all or a portion of a payment you are receiving from the Retirement System is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover. This notice describes the rollover rules that apply to payments from the Retirement System.

Rules that apply to most payments from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?
You will be taxed on a payment from the Retirement System if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (generally, distributions made before age 59½), unless an exception applies. However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception to the 10% additional income tax applies).

These guides are subject to and governed by the General Statutes of the State of North Carolina.

What types of retirement accounts and plans may accept my rollover?
You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, IRAs are not subject to spousal consent rules, and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

How do I do a rollover?
There are two ways to do a rollover. You can do either a direct rollover or a 60- day rollover.

If you do a direct rollover, the Retirement System will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. Generally, you will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the Retirement System is required to withhold 20% of the payment for federal income taxes (or a higher amount you elect). This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld (or the higher amount you elected). If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

How much may I roll over?
If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Retirement System is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Required minimum distributions after age 70½ (if you were born before July 1, 1949), after age 72 (if you were born on or after July 1, 1949, and before January 1, 1951), after age 73 (if you were born after December 31, 1950), or after death; and
- Corrective distributions of contributions that exceed tax law limitations.

The Retirement Systems Division or the payer can tell you what portion of a payment is eligible for rollover.

If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?
If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the Retirement System (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax applies to the part of the distribution that you must include in income and is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the Retirement System:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation;
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Payments from a governmental plan made after you separate from service if you are a qualified public safety employee and you
- (1) will be at least age 50 in the year of the separation, or (2) have at least 25 years of service under the Retirement System;
- Payments made due to disability;
- Payments after your death;
- Corrective distributions of contributions that exceed tax law limitations;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a qualified domestic relations order (QDRO);
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year);
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001, for more than 179 days; and
- Payments of up to $22,000 made in connection with federally declared disasters.

If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?
If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions on the part of the distribution that you must include in income, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- The exception for payments made after you separate from service if you will be at least age 55 in the year of the separation (or age 50 or following 25 years of service for qualified public safety employees) does not apply;
- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse); and
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.

N.C. Department of State Treasurer, Retirement Systems Division
3200 Atlantic Avenue, Raleigh, North Carolina 27604
NC.Retirement@nctreasurer.com • (919) 814-4590

Additional exceptions apply for payments from an IRA, including:

- Payments for qualified higher education expenses;
- Payments up to $10,000 used in a qualified first-time home purchase;
- Payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status); and
- Payments of net income attributable to certain excess IRA contributions.

Will I owe State income taxes?
This notice does not address any State or local income tax rules (including withholding rules). Please see Guide C for further information.

SPECIAL RULES AND OPTIONS

If your payment includes after-tax contributions
After-tax contributions included in a payment are not taxed. If you receive a partial payment of your total benefit, an allocable portion of your after-tax contributions is included in the payment, so you cannot take a payment of only after-tax contributions. However, if you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in the payment. In addition, special rules apply when you do a rollover, as described below.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs).

If you do a direct rollover of only a portion of the amount paid from the Retirement System and at the same time the rest is paid to you, the portion rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of $12,000, of which $2,000 is after-tax contributions.

In this case, if you directly roll over $10,000 to an IRA that is not a Roth IRA, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions. If you do a direct rollover of the entire amount paid from the Retirement System to two or more destinations at the same time, you can choose which destination receives the after-tax contributions.

Similarly, if you do a 60-day rollover to an IRA of only a portion of a payment made to you, the portion rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of $12,000, of which $2,000 is after- tax contributions, and no part of the distribution is directly rolled over. In this case, if you roll over $10,000 to an IRA that is not a Roth IRA in a 60-day rollover, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after- tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

If you miss the 60-day rollover deadline
Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. Under certain circumstances, you may claim eligibility for a waiver of the 60-day rollover deadline by making a written self-certification. Otherwise, to apply for a waiver from the IRS, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).

If you were born on or before January 1, 1936
If you were born on or before January 1, 1936, and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

If you are an eligible retired public safety officer and your payment is used to pay for health coverage or qualified long- term care insurance
If you retired from the Retirement System as a public safety officer, and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income Retirement System payments paid (either directly or indirectly) as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of $3,000 annually. For this purpose (but not for the 10% exception above), a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew.

If you roll over your payment to a Roth IRA
If you roll over a payment from the Retirement System to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. In general, the 10% additional income tax on early distributions will not apply. However, if you take the amount rolled over out of the Roth IRA within the 5-year period that begins on January 1 of the year of the rollover, the 10% additional income tax will apply (unless an exception applies).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to

$10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), and IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).

Guide B. Special Federal Tax Notice regarding refunded retirement contributions. (Continued)

If you are not a Retirement System member

Payments after death of the member. If you receive a distribution after the member's death that you do not roll over, the distribution generally will be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the deceased member was born on or before January 1, 1936.

If you are a surviving spouse.
If you receive a payment from the Retirement System as the surviving spouse of a deceased member, you have the same rollover options that the member would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½ (if you were born before July 1, 1949), age 72 (if you were born on or after July 1, 1949 and before January 1, 1951), or age 73 (if you were born after December 31, 1950).

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the member had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the member had not started taking required minimum distributions from the Retirement System, you will not have to start receiving required minimum distributions from the inherited IRA until the year the member would have been age 70½ (if the member was born before July 1, 1949), age 72 (if the member was born on or after July 1, 1949 and before January 1, 1951), or age 73 (if the member was born after December 31, 1950).

If you are a surviving beneficiary other than a spouse.
If you receive a payment from the Retirement System because of the member's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a QDRO.
If you are the spouse or former spouse of the member who receives a payment from the Retirement System under a QDRO, you generally have the same options and the same tax treatment that the member would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). However, payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

If you are a nonresident alien.
If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Retirement System is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Other special rules
If your payments for the year are less than $200 (not including payments from a designated Roth account in the Retirement System), the Retirement System is not required to allow you to do a direct rollover and is not required to withhold federal income taxes. However, you may do a 60-day rollover.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information on special rollover rights related to the U.S. Armed Forces, see IRS Publication 3, Armed Forces' Tax Guide. You also may have special rollover rights if you were affected by a federally declared disaster (or similar event), or if you received a distribution on account of a disaster. For more information on special rollover rights related to disaster relief, see the IRS website at www.irs.gov.

FOR MORE INFORMATION

You may wish to consult with the Retirement Systems Division or payor, or a professional tax advisor, before taking a payment from the Retirement System. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs); IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.

Guide C. How to Obtain Additional Federal Tax Information.

The Special Federal Tax Notice (Guides B, C and D) summarizes only the federal (not State or local) tax rules that might apply to your payment. The rules described above are complex and may be subject to conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from your Plan.

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. These publications are available from your local IRS office, on the IRS's Internet Web Site at www.irs.gov, or by calling 1-800-TAX-FORMS.

These guides are subject to and governed by the General Statutes of the State of North Carolina.