

## **Roll-Over to IRA's**

### *Special Notice for Retiring Foreign Service Employees*

Under Public Law 102-318, certain lump sum payments that are authorized by the Foreign Service Retirement and Disability System and the Foreign Service Pension System can be "rolled over" to an Individual Retirement Account (IRA) if the lump sum payment is dated on or after January 1, 1993. The following types of lump sum payments, when dated on or after January 1, 1993, can be "rolled over" to an IRA:

-The taxable portion of a lump sum payment under the alternative form of annuity (AFA). (In general, about 85% to 90% of the AFA payment is taxable, so this represents a significant tax savings for a retiring employee); and

-Interest on a lump sum payment under the AFA. (There is no interest when an employee is paid the lump sum benefit under the AFA in single installment. However, employees who retire involuntarily and elect the AFA can receive the lump sum payment in two installments. There is no interest on the first installment, but the second installment includes interest, which can now be "rolled over to an IRA"); and

-Interest on 35 year refunds of excess deductions. (Under the law, employees who have more than 35 years of service under FSRDS receive a refund of the retirement deductions withheld after 35 years of service, plus interest. The retirement deductions that were withheld after 35 years of service were never taxable, but the interest on those contribution are taxable. Under the new law, the interest on those "excess deductions" can be rolled over to an IRA).

The new law also mandates that any lump sum benefit described above which is dated on or after January 1, 1993 and not "rolled over" to an IRA shall be subject to automatic Federal income tax withholding of 20% of the taxable portion of that payment. The retiring employee has 60 days to "roll over" the payment to an IRA. Thus, if the payment is not sent directly to an IRA, the 20% tax withholding applies, but the employee can, within 60days

of the date of the payment, "roll over" the payment to an IRA and recover any taxes when the tax return is filed.