

NEBRASKA

***DEFERRED
COMPENSATION PLAN***

EMPLOYEES RETIREMENT SYSTEM HANDBOOK



NPERS
Nebraska Public Employees
Retirement Systems
Revised 08/2019

IMPORTANT

This member handbook contains time-sensitive information and should be read by all new State employees within 30 days of employment.



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800-245-5712
npers.ne.gov

STATE OF NEBRASKA EMPLOYEES DEFERRED COMPENSATION PLAN

Nebraska Revised Statutes
§§ 84-1504 through 84-1513

A Deferred Compensation Plan is a **voluntary investment plan**, authorized by IRS Code §457 whereby you authorize your employer to defer part of your current compensation and receive the amount, plus earnings, at a later date, such as at retirement. The State of Nebraska Deferred Compensation Plan (DCP) is designed to provide employees a supplementary retirement income.

As with other retirement plans, there are restrictions on withdrawals from a Deferred Compensation Plan. Therefore, your participation should be considered a **long-term investment program** and not a short-term savings program.

This booklet provides an overview of the benefits available to participants as of the revision date. The provisions of Neb. Rev. Stat. §84-1504, et. seq., and the current revision of the Plan Document shall supersede the information in this booklet.

This guidance document is advisory in nature but is binding on the Nebraska Public Employees Retirement Systems (NPERS) until amended by NPERS. A guidance document does not include internal procedural documents that only affect the internal operations of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules and regulations made in accordance with the Administrative Procedure Act. If you believe that this guidance document imposes additional requirements or penalties on regulated parties, you may request a review of the document.

The provisions of the Plan as provided in the Plan Document, statutes, and administrative rules adopted by the Public Employees Retirement Board (PERB) and Internal Revenue Code §457 legally govern the operation of the Plan. The Plan Document is available on the Nebraska Public Employees Retirement Systems' (NPERS) website at npers.ne.gov, or by contacting NPERS for a copy.

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ELIGIBILITY

Any **State of Nebraska employee** employed on a permanent or temporary basis, full-time or part-time, may participate in the Deferred Compensation Plan (DCP). Employees must be a United States citizen or a qualified alien in order to participate.

Any Nebraska **county employee** employed on a permanent full-time or part-time basis, or elected official, may participate in the Deferred Compensation Plan, *provided their county does not offer its own deferred compensation plan.*

Excluded from participation in DCP are employees of the University of Nebraska, any of the State Colleges or Technical Community Colleges, independent contractors, and employees of the coordinating commission of postsecondary education.

ENROLLMENT

Initial Enrollment

You may join DCP by completing the DCP Plan Enrollment (NPERS Form 8000) **and submitting it to your payroll department.** They will sign the form and forward it to NPERS for processing. Once your account has been established, NPERS will notify your payroll department to begin payroll deductions. The calendar month **after** NPERS receives the completed form is when your participation and contributions to DCP will begin.

EXAMPLE



You complete a DCP Enrollment Form on January 5 and your employer signs the form on January 8 and forwards it to NPERS who receives it January 10. Your first contribution to DCP will begin with the first pay period in February.

IMPORTANT



As with other retirement plans, there are restrictions on withdrawals from DCP, so your participation should be considered a *long-term investment* program and **not** a short-term savings program. (See "Distribution of Account.")

Changes After Enrollment

After you have started contributing to DCP, you may change, stop, or re-start your contributions by completing a *DCP Plan Change* (NPERS

Form 8400). Submit this form to your payroll department if you are making changes to contribution amounts or deferring unused leave. They will sign the form and forward it to NPERS for processing. If you are *only* making changes to investment elections or transfers, you may submit this form directly to NPERS.

Unless the DCP Change Form specifies a later effective date, all changes to DCP, including updating or ceasing contributions, will be effective the calendar month following NPERS' receipt of your DCP Change Form. Changes made to investment elections and transfers will be processed as soon as administratively possible.

If you are deferring sick/vacation leave, NPERS must receive your DCP Enrollment or Change Form **the calendar month prior to your date of termination**. (See "Deferring Sick/Vacation Leave.")

IMPORTANT



DCP Enrollment and Change Forms may be obtained from your employer or from NPERS, or printed from the website at npers.ne.gov.

CONTRIBUTIONS

MAXIMUM CONTRIBUTION

As a participant in DCP, you may defer an elected amount from your compensation, the *minimum* being \$25 per month. The *maximum* you can defer and contribute to DCP is the *lesser* of:

■ 100% of your annual compensation less mandatory retirement contributions

OR

■ An annual dollar limit established under the Internal Revenue Code.

Annual limits are adjusted each year for inflation and reported on the IRS website. Limits are also published in the January NPERS newsletters and can be found on the DCP Enrollment and DCP Change forms. Please be aware contributions you make to another tax deferred plan may count toward these limits.

Age 50 Provision

During the year you attain age 50 and any year thereafter, you may contribute an *additional* amount above the annual limit. This amount is periodically adjusted for inflation.

Deferring Unused Sick/Vacation Leave

At termination or retirement, you may elect to defer eligible sick and vacation leave payouts, or back pay, to your account prior to terminating employment.

PROCESS FOR DEFERRING SICK/VACATION LEAVE

| | |
|--|---|
| If you have previously established a DCP account: | Complete, sign, and submit a DCP <i>Plan Change Form</i> (NPERS Form 8400) to your agency payroll department. Your payroll department is responsible for forwarding the form to NPERS. NPERS must receive the DCP Change Form the calendar month prior to your date of termination. |
| If you have not previously established a DCP account: | Complete, sign, and submit a DCP <i>Plan Enrollment Form</i> (NPERS Form 8000) to your agency payroll department. Your payroll department is responsible for forwarding the form to NPERS. NPERS must receive your DCP Enrollment Form the calendar month prior to your date of termination. |

Sick or vacation payment amounts are determined by your agency payroll department per statute or contract language. These deferrals are subject to annual contribution limits. If the exact dollar amount of leave payout is not known at the time you complete the form, you may estimate the amount.

Value of Pre-Tax Savings

Contributions to DCP are made on a pre-tax basis. These contributions will not be reported as income and are not subject to state or federal income tax. State and federal income tax will be applied once you cease employment and begin taking distributions. Social Security and Medicare taxes (FICA) are deducted from contributions to DCP.

The following calculation illustrates how participation in DCP lowers your reported salary, which reduces your income taxes.

IT ONLY COSTS \$80 TO SAVE \$100 IN DCP!

| | PAY WITHOUT DCP CONTRIBUTIONS | PAY WITH DCP CONTRIBUTIONS |
|--|-------------------------------|----------------------------|
| Gross Monthly Pay | \$2,000 | \$2,000 |
| Less 5% DCP Contribution | - 0 | - 100 |
| Taxable Pay | \$2,000 | \$1,900 |
| Less Federal & State Tax (Assume 15% federal & 5% state) | - 400 | - 380 |
| Take-Home Pay | \$1,600 | \$1,520 |
| <i>Difference in Take-Home Pay</i> | | \$80 |

INCOMING ROLLOVERS/TRANSFERS

You may rollover or transfer funds into your DCP account from the following tax-qualified plans:

TAX-QUALIFIED PLANS THAT MAY TRANSFER TO DCP

| | |
|----------------------|---|
| 401(a) | Qualified Retirement Plan [includes a 401(k) plan] |
| 403(a) or (b) | Tax Sheltered Annuity Account |
| 457(b) | Eligible Deferred Compensation Plan (Nebraska only) |
| 408(a) | Individual Retirement Account containing only rollover monies from a qualified plan ("Conduit" IRA) |
| 408(a) | Individual Retirement Annuity other than an endowment contract |

When transferring to your State of Nebraska DCP account from another Nebraska 457 plan, these conditions must be met:

CONDITIONS FOR TRANSFERRING FUNDS FROM A §457 PLAN

- You are actively employed by the State of Nebraska.
- You have enrolled and made at least one contribution to your Nebraska DCP account.
- After the transfer has occurred, you must make at least one additional monthly contribution to your Nebraska DCP account equal to or greater than the monthly amount you were contributing to the transferring plan.
- Your annual contribution limit will be reduced by any contributions you previously made to the other 457 account. You may not contribute more than the annual dollar limit for all 457 plans you participate in during any one calendar year.
- You must have ceased employment with the entity that maintains the transferring plan unless you are transferring all of the assets from the other 457 plan.

When rolling funds from a 401, 403, or 408 account (as listed above) into your State of Nebraska DCP account, these conditions apply:

CONDITIONS FOR TRANSFERRING FUNDS FROM A §401, §403, OR §408 PLAN

- You must be an active employee participating in the State of Nebraska DCP. **Exception:** State Employees may rollover funds from Cash Balance after termination provided they established a DCP account prior to ceasing employment with the State. (See "Enrollment.")
- Since the rollover is from a non-457 plan, amounts rolled into your DCP account will be accounted for separately from any current and future DCP contributions.
- Amounts rolled into your DCP account will not count toward the annual limit on deferrals. (See "Contribution Limits.")
- You cannot roll funds from a Roth account into DCP.
- Amounts rolled from other retirement accounts may be subject to early withdrawal penalties if distribution is made prior to retirement age.

INVESTMENT OF CONTRIBUTIONS

Participants in DCP must make their own investment decisions. If you do not make an investment election, your contributions will be invested by default in the Stable Value Fund.

IMPORTANT



There is no guaranteed rate of return. Rates of return vary based on investment choices and market performance.

The Public Employees Retirement Board (PERB) selects the investment funds available to Deferred Compensation participants, and the Nebraska Investment Council selects the money managers for each fund. There are currently 13 investment options. These investment options may change from time to time. Each year NPERS will publish an Annual Investment Report outlining the current investment options. This report is available on the NPERS website and members may contact NPERS to request a written copy. For additional investment assistance, NPERS offers an Investment Education video on the NPERS website. Members who do not have internet access may request a copy of this video in DVD format.

INVESTMENT OPTIONS

- | | | |
|------------------------------|----------------------------|----------------------------------|
| ■ Money Market Fund | ■ Stable Value Fund | ■ Bond Market Index Fund |
| ■ Conservative Premixed Fund | ■ Moderate Premixed Fund | ■ Aggressive Premixed Fund |
| ■ Age-Based Fund | ■ S & P 500 Index Fund | ■ Large Company Growth Fund |
| ■ Large Company Value Fund | ■ Small Company Stock Fund | ■ International Stock Index Fund |
| ■ Investor Select Fund | | |

IMPORTANT



Investment options are scheduled to be updated on or after January 1, 2021. Details on the new options will be provided when this information becomes available.

Investment Election Changes

(FUTURE CONTRIBUTIONS)

You may *change* the percent of **future** contributions you have allocated to each fund at any time. This change will not affect the existing contributions (current balance) already invested in the various funds.

Investment Transfers

(EXISTING CONTRIBUTIONS)

You may *transfer* (move) a dollar amount or percentage of your **existing** balances between any of the various funds.

Trading Restrictions/Excessive Trading Policy

In order to protect plan sponsors and participants, as well as meet regulatory guidelines, the PERB implemented an excessive trading policy effective on May 1, 2011. This policy monitors and limits the number of *transfers* permitted within a set period of time. Changes to *investment elections* (future payroll contributions) are not affected.

A “monitoring period” will begin whenever a member makes a “Round Trip.” A round trip is defined as a *transfer into followed by a transfer out of the same fund* within 60 days. When a member executes a round trip, this initiates a 60-day monitoring period. If the member makes *another transfer into the same fund* during the monitoring period, a written notice will be mailed to their home address. This notice will inform the member if they perform a *transfer out of this fund during the next 60 days*, they will be subject to trading restrictions.

Members subject to trading restrictions will be prevented from making any transfers **into** the applicable fund for 60 days. Investment elections or transfers for all funds during this time period must be done via the U.S. Mail. This would exclude the use of phone, voice response, fax, web/internet, and hand-delivered means of executing trades. The participant will be notified in writing upon the imposition of these trading restrictions. Trading privileges will be restored automatically at the end of the trading restriction time period.

There are additional trading restrictions on the Stable Value Fund. A direct transfer between the Stable Value Fund and a “competing fund,” specifically the Money Market Fund, is not allowed. Transfers between such “competing funds” via another fund are restricted for three months.

When transferring out of a fund, you cannot transfer back into that fund on the same day.

Methods for Investment Elections or Transfers

There are the two ways Deferred Compensation participants may make investment elections or transfers.

METHODS FOR MAKING INVESTMENT CHANGES

- | | |
|--------------------|--|
| Online | Enter changes through the Ameritas online account access via the NPERS website. Instructions on creating an online account are available on the NPERS website. |
| Mail or Fax | Complete an Investment Election Form, available from your employer or NPERS, or downloaded from the NPERS website, and submit to NPERS by mail or fax to 402-471-9493. |

Changes received by mail or fax will be processed as soon as administratively possible. Changes made online are processed daily after the close of the market. There is no fee assessed for these changes or transfers and members will receive confirmation of the changes from the plan record keeper. It is the member's responsibility to review all confirmations and quarterly statements, and immediately report any discrepancies to NPERS.

STATEMENT OF ACCOUNT

Account statements are mailed each calendar quarter. These statements give a detailed summary of contributions, investment earnings or losses, record keeper fees, and the account balance accumulated to date. Members who would prefer an electronic statement may select this option via the Ameritas online account access.

WARNING



It is the member's responsibility to review all statements and immediately report any discrepancies to NPERS.

IMPORTANT



To ensure you receive your statements and other mailings, always inform your employer of address changes. You may request a statement of account at any time by writing NPERS or utilizing the online account access.

EXEMPTION FROM LEGAL PROCESS

All Plan assets are held by NPERS *in trust*. Your accumulated account is immune from execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or any other process of law. The assets cannot be paid out because of any legal actions. In addition, *you cannot borrow from your DCP account* or use the assets as loan collateral since they are not assignable. Your DCP account is not subject to the Spousal Pension Rights Act and so Qualified Domestic Relations Orders are not allowed in the Plan. Your Plan assets cannot be paid to anyone other than yourself or your beneficiaries except through an Internal Revenue Service tax lien.

ADDRESS CHANGES

As long as you are an active employee, your address is reported to NPERS by your employer. Therefore, it is important you keep your address current *with your employer*.

Terminated members should report address changes in writing directly to NPERS to ensure you receive your Account Statement and other items. An address change form is available on the “Forms” page of the NPERS website. All address change forms must be signed by the member. In addition, a terminated member *who has deferred taking benefits* (inactive member) may change their address online if they have created an NPERS online account.

WARNING



Terminated members who fail to maintain an updated address may have their accounts transferred to unclaimed property.

FEES

ACCOUNT FEES

There are three separate fees assessed to member accounts.

- Record keeping fee
- NPERS' administrative fee
- Investment management fee

IMPORTANT



The amount of these fees are subject to change. Changes to fees are reported in NPERS' newsletters and on the NPERS website.

Record Keeper Fee

The fee for record keeping services is subtracted directly from your account. This fee is assessed on a monthly basis and is reflected on your quarterly account statement.

In addition to the monthly record keeping fees, charges are assessed when a member takes a distribution from their account. Full (final) distributions of account balances greater than \$250 will be charged \$75, distributions of \$100 up to \$250 will be charged \$35, and distributions less than \$100 will not be assessed a final distribution fee. All Partial distributions or systematic withdrawals will be charged \$5 per distribution.

The record keeper will also charge a quarterly fee of \$0.50 for delivery of statements or documents mailed to plan participants. Members can avoid this mailing fee by signing up for electronic distribution of correspondence.

Administrative Fee

A portion of NPERS' operational costs are reimbursed from administrative fees. NPERS will assess this fee in the form of basis points against plan assets. A basis point is one one-hundredth of a percent. These fees are reflected in the adjustment column of your quarterly statement.

Investment Management Fee

The investment management expenses include the operational costs of the Nebraska Investment Council, the custodial bank fee to handle the plan accounting, and the fee charged by each fund manager. These fees are not subtracted on your quarterly statement but reduce the earnings of each investment fund.

Because of economies of scale and the state’s negotiating power, the investment fees on your funds are very low. In comparable mutual funds outside of the Plan, fees are generally higher and sales charges may also apply. Investment fees for each fund are listed in NPERS’ Annual Investment Report.

BENEFICIARY DESIGNATION

Your beneficiary is the person or persons you designate to receive your account balance upon your death. If you elect to enroll in DCP, you need to complete and submit a Beneficiary Designation Form. The beneficiaries you designated for the mandatory retirement will not automatically transfer to the voluntary DCP account.

Keeping your beneficiary designation at NPERS up to date will ensure benefits are paid promptly and properly upon your death.

CIRCUMSTANCES FOR BENEFICIARY REVIEW

We recommend reviewing your beneficiary designation when:

- You or a beneficiary marries or becomes divorced
- You return to employment after receiving a distribution of your account
- A beneficiary dies
- You have a child

You may request a Beneficiary Designation Form from your employer, from NPERS, or access the form from the NPERS website. Updates go into effect only upon receipt of the original, properly completed, signed, and notarized form in our office. All previous beneficiary designations will be cancelled.

Beneficiary information is considered confidential and will not be provided over the phone. Individuals who have created an NPERS online account may be able to view their beneficiary(ies) online. If you are unsure who you have listed, you may request this information in writing or submit a new form to our office.

If there is no designated beneficiary on file, death benefits will be paid to the spouse married to the member on the member’s date of death. If there is no eligible spouse, death benefits will be issued to the member’s estate. (See “Death Benefits.”)

COMPLETING THE BENEFICIARY DESIGNATION FORM

- You may name the primary and contingent beneficiary(ies).
- You may name a person or a trust. When naming a trust, include the full name and date of the trust along with the name of the trustee and their contact information. When designating a living trust, NPERS will need a point of contact who in theory will survive the member.
- If you have more than one retirement account at NPERS you may mark your Beneficiary Designation Form (“Plan Type” – upper right corner) for all accounts, or file separate Beneficiary Designation Forms if you want to name different beneficiaries for each account.

DISTRIBUTION OF BENEFITS

- Benefits will go to your named, primary beneficiary(ies) in equal amounts *unless* you assign specific percentages.
- If you designate multiple primary beneficiaries and one or more of them predecease you, your benefits will be divided among the remaining primary beneficiaries.
- NPERS does not observe the passing of benefits to the heir(s) of deceased beneficiary(ies) *per stirpes*.
- Only when *all* your named, primary beneficiary(ies) *have predeceased you*, will benefits go to your contingent beneficiaries.

IMPORTANT



Beneficiary(ies) designated on a beneficiary form generally take priority over beneficiary(ies) named in a will or trust.

DISTRIBUTION OF ACCOUNT

Your contributions and earnings in the Plan may only (but are not required to) be distributed (paid out) upon certain conditions.

CONDITIONS FOR DISTRIBUTION OF ACCOUNT

- Termination of employment or retirement
- Occurrence of a severe and unforeseen emergency
- “De minimus” withdrawals per IRS 457 regulations (see “De Minimum Withdrawals”)
- Death
- Attaining the age of 70½, whether employed or not employed **(if you are no longer employed by the State of Nebraska, you must take a required minimum distribution at age 70½).**

TRANSFERRING FUNDS

You may transfer funds to another qualified plan prior to retirement or termination if the transfer is made for:

- Purchase of service credit in a governmental defined benefit plan (i.e., Nebraska School Employees Retirement Plan, etc.), or
- Repayment of a refund in a governmental defined benefit plan.

PAYMENT OPTIONS AT TERMINATION/RETIREMENT

At termination or retirement, *regardless of your age*, you may

- **defer** payment of your account up to age 70½, or
- request **distribution** of your DCP account.

THE FOLLOWING PAYMENT OPTIONS ARE AVAILABLE

- | | |
|--|---|
| ■ Monthly annuity (proof of age is required) | ■ Systematic withdrawals which provide a series of payments to you at the frequency and dollar amount you elect |
| ■ Lump sum distribution paid directly to you (included in your taxable income) | ■ Deferral of payments until a later date (no later than age 70½) |
| ■ Rollover distribution paid to another tax deferred qualified plan or (Traditional or Roth) IRA | ■ Combination of the above |

If you request distribution of your account, NPERS will provide you with the necessary form. When you select a payment option, your payment will be processed as soon as administratively possible, but **no sooner than 60 days** after your termination to allow time for processing all contributions from final pay. If you select an annuity, payments will be retroactive to your annuity start date.

When your contributions and earnings are distributed, the funds are taxed as ordinary income in the year in which you receive them. (See “Taxation.”)

The record keeper charges a final distribution fee when you take a total distribution of your account through a lump sum distribution, rollover distribution, or monthly annuity. (See “Fees.”)

Monthly Annuity Options

You may use all or part of your account to purchase an annuity. Your monthly annuity payment will be determined by the dollar amount you annuitize, your age on the date your payments are to begin, and the annuity option you select. When you select an annuity, your investment funds are liquidated and you are paid a monthly payment amount that never changes. You may request an estimate of annuity payment amounts by writing to or calling NPERS.

When you select an annuity option, your age must be verified before payments can begin. A legible copy of your birth certificate will be considered sufficient proof of your age. When a survivor option is selected, NPERS requires your spouse's or non-spouse's proof of age, and if married, a copy of your marriage license. You may request an annuity estimate by writing to NPERS.

IMPORTANT



DCP annuities are provided via a private insurance company and rates may differ from the rates offered in the mandatory Defined Contribution or Cash Balance plans.

WARNING



You **CANNOT** change your option after your annuity start date. Therefore, NPERS suggests you request estimates of benefits under the following options before you make your selection.

OPTION 1

Life Only Annuity

Provides a monthly payment **for your lifetime** with no refund or death benefit. There is no beneficiary designation under this option.

OPTION 2

Modified Cash Refund Annuity

Provides a monthly payment **for your lifetime**. If you die before receiving payments equal to the amount used to purchase the annuity, the remaining balance will be paid in a lump sum to your beneficiary(ies) or estate. You may list as many beneficiaries as you wish and change them at any time after retirement.

OPTION 3

Period Certain and Continuous Annuity

Provides a monthly payment **for your lifetime**, with a potential death benefit based on a time frame to your beneficiary(ies) or estate. You may list as many beneficiaries as you wish and change them at any time.

OPTION 4

Joint and Survivor Annuity

Provides a monthly payment **for your lifetime**, and a percentage of that benefit to your spouse after your death. Your spouse will be your sole, permanent beneficiary. Should he/she predecease you or you divorce, you cannot select another beneficiary. NPERS will require legible proof of age for your spouse and a legible certified copy of your marriage license.

OPTION 5

Non-Spousal Joint and Survivor Annuity

Provides a monthly payment **for your lifetime**. When you die, your surviving beneficiary will receive 50% of your benefit, paid monthly for his/her lifetime. You may designate only one person as your permanent beneficiary (this cannot be your spouse) and you cannot change your beneficiary after commencement of the benefit. NPERS will require legible proof of age of your beneficiary.

OPTION 6

Designated Period Annuity

Provides a monthly payment for a designated period of 5, 10, 15, or 20 years. There is NO guaranteed lifetime payment under these options. If you die prior to the end of the designated period, your beneficiary(ies) or estate will receive the remainder of the benefit payments. You may list as many beneficiaries as you wish and change them at any time.

Lump Sum Distribution Option

All or part of your account may be paid directly to you in a lump sum distribution and will be reported as taxable income. A partial distribution will be allocated pro rata among your investment funds. The distribution will be subject to a record keeper distribution fee plus a **20%** federal tax withholding and, for Nebraska residents, **5%** Nebraska state withholding. (See “Fees” and “Taxation.”)

Rollover Distribution Option

All or part of your account may be rolled over or transferred to another eligible 457 government plan, eligible retirement plan, or IRA (Traditional or Roth). With the exception of rollovers to a Roth IRA, amounts are not taxable at the time of the rollover. You will be taxed when you eventually withdraw the money from the other plan. Roth IRA rollovers are subject to State and Federal income taxes *in the year of the rollover*. Members will be responsible for filing and paying taxes on the Roth IRA rollover.

Systematic Withdrawal Option

The Systematic Withdrawal Option (SWO) is a series of withdrawals (distributions) paid to you at the frequency and dollar amount you elect. The payment can be made on a monthly, quarterly, semiannual, or annual basis and must be a minimum withdrawal of at least \$100. Withdrawals will be allocated pro rata among your investment funds. Changes in amount and frequency are *limited to two per year*.

While receiving SWO payments, the balance of your account remains invested and is subject to market gains and losses. You continue to have investment choices and may transfer your remaining account balance among the investment funds. Your account will continue to be assessed monthly fees.

The distribution will be subject to a record keeper distribution fee plus a **20%** federal tax withholding and, for Nebraska residents, **5%** Nebraska state withholding. (See “Fees” and “Taxation.”)

The SWO payment will cease when the account is fully depleted. If you die, the SWO payment will cease upon notification of your death. If a balance remains, it will be paid to your designated beneficiary.

CHARACTERISTICS OF SWO

- | | |
|--|--|
| ■ Minimum withdrawal — \$100 | ■ Monthly, quarterly, semiannual, or annual distributions |
| ■ Can be directly deposited into your bank account | ■ May make changes in amount and frequency of payments twice per year |
| ■ If paid directly to you, federal taxes will be withheld at a 20% rate and, for Nebraska residents, Nebraska state taxes will be withheld at 5% | ■ Account balance remains invested as directed. Investment selection and market performance determine gain or loss |
| ■ Withdrawal amounts will be subject to required minimum distribution rules after reaching age 70½ | ■ Payments cease if account is fully depleted |

Deferral Option

If you do not wish to take payment of your account at the time you terminate/retire, you may defer all or a part of the distribution. Payment of your account *may* begin at any time you choose, but *must* begin by April 1 following the year in which you reach age 70½ and have terminated employment. (See “Taxation.”)

While your account is deferred, it remains invested and is subject to market gains and losses. You continue to have the investment choices you had while employed and may transfer your remaining account balance among the investment options at your discretion. Deferred accounts continue to be assessed monthly fees.

IMPORTANT



In order to receive proper notification and payment of benefits when using the Deferral Option, you must keep your address current with NPERS. Terminated members who fail to maintain an updated address may have their accounts transferred to unclaimed property.

DEATH BENEFIT

Upon your death, your employer or beneficiaries should immediately notify NPERS. Any balance remaining in your account will be released according to your most recent Beneficiary Designation Form.

DEATH BENEFITS

The following rules apply:

- If you die after purchasing an annuity, the death benefit is regulated by the form of the annuity you chose. (See “Annuity Options.”)
- If an election has not been made **within 120 days**, death benefits will be paid to your beneficiary as a lump sum payment.
- If you die without a designated beneficiary, payment will be made to your estate.
- Proof of death must be provided before any payments will be distributed.

Surviving Spouse’s Options

If your spouse is the sole primary beneficiary, they may elect distribution under any of the payment options with the exception of the Joint and Survivor annuity options. (See “Payment Options at Termination/Retirement.”)

WARNING



This election must be made *within 120 days* of your date of death.

If your spouse elects to *defer* distribution within the 120-day time frame, they cannot defer longer than 5 years from your date of death. If your spouse elects a *systematic withdrawal*, the entire account must be distributed no later than 5 years from your date of death.

Non-Spousal Options

If your beneficiary is not your spouse, they may elect either the Lump Sum Distribution Option, the Rollover Distribution Option, or the Systematic Withdrawal Option.

WARNING



This election must be made *within 120 days* of your date of death.

If your beneficiary elects a *systematic withdrawal*, the entire account must be distributed no later than 5 years from your date of death.

EMERGENCY WITHDRAWAL/ FINANCIAL HARDSHIP

If you suffer a severe, unforeseen emergency, you can apply to withdraw all or a portion of your account prior to ceasing employment. Emergency withdrawals are not allowed for personal expenses, such as a down payment for a house, purchase or repair of an automobile, college or other educational expenses, normal monthly bills, credit card debt, payments of loans or federal or state taxes.

The financial hardship must result from a sudden and unexpected illness or accident of you or your dependents, or the loss of your property due to casualty or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control. Under most circumstances, divorce proceedings are not considered an unforeseeable event.

Before it can be determined if the event is unforeseeable, you must provide financial records that document the hardship and complete an Emergency Withdrawal Request Questionnaire. You must also prove that you cannot meet the need for this hardship from other resources, or by simply stopping your contributions to DCP. Distributions because of unforeseeable emergency will be limited to the amount necessary to satisfy the need.

DCP accounts are subject to market fluctuations prior to the actual distribution of an emergency withdrawal. No contributions may be made during the six months following an emergency withdrawal.

Contact NPERS for additional information regarding Emergency Withdrawal/Financial Hardship. Emergency withdrawals must be approved by the Public Employees Retirement Board. NPERS is required to withhold taxes on emergency withdrawals. (See “Taxation.”)

“DE MINIMUS” WITHDRAWALS

You may withdraw your total account if your balance is less than \$5,000 and you have not contributed to the Plan during the prior two years. In addition, NPERS reserves the right to distribute your account if you do not make contributions for two years and the account balance is less than \$1,000. Only one de minimus withdrawal is allowed during a member’s participation in the Plan.

REEMPLOYMENT

If you terminate employment with the State of Nebraska, and later return to employment with the State of Nebraska, it will only be considered a bona fide separation from service as long as 120 calendar days have passed and you did not have a pre-arranged agreement to return to work. If you do not meet these criteria, you must repay any distribution you have received.

TAXATION

Your current contributions to your DCP account are not taxed when deducted from your salary and remitted to the Plan. This means the taxable income reported on your Wage and Earning Statement (IRS Form W-2) issued by your employer is reduced by the amount you contribute to your DCP account.

When your contributions and earnings are returned to you, either as an annuity or another form of distribution, the funds are taxed as ordinary income in the year in which you receive them. Payments are subject to both federal and state income tax. State income tax will be based on your state of residence when you receive payments.

Once you receive payments from your DCP account, the income will be reported to you on a 1099-R form each year in January for the payments received the prior year. A copy of that form will also be provided to the Internal Revenue Service.

You may wish to contact the Internal Revenue Service and/or a tax consultant for additional income tax information.

Taxation of Distributions

Any amounts from your account that are rolled into a Traditional IRA or another qualified retirement plan are not subject to taxation at the time of the rollover distribution. Those amounts will be subject to taxation when you take a distribution from the rollover account. Roth IRA rollovers are subject to State and Federal income taxes in the year of the rollover. Members will be responsible for filing and paying taxes on the Roth IRA rollover.

NPERS is required *by law* to withhold **20%** for federal income taxes and, for Nebraska residents, **5%** for Nebraska state income taxes for distributions paid directly to you. The withholding for PERB approved emergency withdrawals is 10% federal and 5% Nebraska. These required withholdings may or *may not* satisfy your tax obligations for the year.

Taxation of Annuities

If you purchase a monthly annuity, NPERS will withhold federal taxes, and Nebraska state taxes for Nebraska residents, from each monthly check based on the withholding election you designate on a Withholding Certificate for Annuity Payments form submitted with your Request for Distribution Form. If you do not submit a withholding form, NPERS will withhold taxes at the rate of “married taxpayer with three exemptions.” You may change your withholding at any time by submitting a new withholding form.

If you are not a resident of the State of Nebraska, you may be subject to state taxes of the state of which you are a resident.

Required Minimum Distributions (RMD)

Taxable distributions (RMDs) must be taken each year after you have separated from service and reached age 70½.

RMD DEADLINES

The initial RMD may be delayed until April 1 following:

- The year you reach 70½, or;
- If you have not terminated prior to age 70 ½, the year you terminate employment.

Subsequent RMDs must be taken each year by December 31.

NPERS will send an RMD notification to terminated members when an RMD is due but it is your responsibility to take these distributions. **Failure to take an RMD can result in significant tax penalties and transfer of your account to unclaimed property.**

IRS Regulations

All distributions from your DCP account must comply with IRS regulations for 457 of the Internal Revenue Code.

With the exception of certain incoming rollovers, DCP distributions are *not* subject to a 10% federal tax penalty for early withdrawals.

RETIREMENT SAVINGS TAX CREDIT

Low and moderate income employees may be able to reduce their taxes by qualifying for the Federal Saver’s Tax Credit, formally known as the Retirement Savings Contribution Credit. Contributions to DCP may qualify participants for a tax credit of up to \$1,000 per individual (\$2,000 if filing jointly).

Eligibility and the amount of the credit are determined by *filing status* and *adjusted gross income* (AGI). Income limits are adjusted each year for inflation and published by the IRS. Filing status and adjusted gross income limits will be included in the NPERS newsletters at the start of each year.

Don’t confuse tax “credits” with “deductions.” A deduction reduces the amount of your taxable income and you pay taxes on the remaining income at a percentage based on the IRS tax brackets. A credit reduces the final amount of taxes you owe dollar for dollar and provides *significantly* better savings. Even better, contributions made to a Deferred Compensation Plan reduce your taxable income (AGI) and may help you qualify for a higher Saver’s Tax Credit.

YOU MAY TAKE THE CREDIT IF ALL OF THE FOLLOWING APPLY:

- You must be at least age 18.
- You are not a full-time student.
- No one else claims an exemption for you on their income tax return.

For further information and full details on the “Retirement Savings Contributions Credit,” please consult your own tax professional or access the Internal Revenue Service website at www.irs.gov.

ADMINISTRATION OF THE PLAN

The **Public Employees Retirement Board (PERB)** consists of eight members appointed by the Governor for five-year terms. Six members are participants in the retirement systems administered by the PERB. Two are at-large members and are not employees of the State of Nebraska or any of its political subdivisions. The State Investment Officer is also a member of the PERB in a non-voting, ex-officio capacity.

The PERB is responsible for the administration of the Judges, State Patrol, School Employees, State Employees and County Employees Retirement Systems, and the Deferred Compensation Plan. PERB meetings are normally scheduled on the third Monday of each month. Current PERB members and meeting dates may be found on the NPERS website.

Nebraska Public Employees Retirement Systems (NPERS) is the agency responsible for the administration of the Plan.

The **Director** is hired by the PERB and directs NPERS in its administration of the various systems. The Director is subject to the approval of the Governor and a majority vote of the Legislature.

The **State Treasurer** is the custodian of the funds and securities of the retirement systems.

The **Nebraska Investment Council** is responsible for the investment and management of the systems' assets. The Council contracts with outside managers to invest the various funds.

The **record keeper** is a company under contract with the PERB to maintain individual member accounts, provide quarterly statements, and allow for changes in investment allocations where applicable.

RELEASE OF INFORMATION

Member account information including name, address, account balances, beneficiaries, or payment options, will only be released under specific conditions.

CONDITIONS FOR RELEASE OF INFORMATION

- Your personal visit to NPERS with adequate proof of identity.
- Adequate proof of identity provided over the phone (not including beneficiaries).
- Written and signed request from the member.
- Written release signed and dated by member (release date must be less than 12 months old).
- A court ordered release.
- Request from guardian or conservator, accompanied by a certified copy of letters of guardianship or conservatorship.
- A request for information from an individual holding a power of attorney granted to that person by a member and the power of attorney on file contains:
 - A provision specifically granting the attorney-in-fact authority to deal with retirement plans; or
 - A provision granting the attorney-in-fact authority to do all things on the member's behalf; and a provision authorizing the release of information to the attorney-in-fact
- Request from a personal representative of a deceased member accompanied by a certified copy of letters of appointment.
- A request for information from a third party signed by the third party and the member.

Beneficiary designation(s) are only provided to you upon your signed, written request or personal visit by you to NPERS (with adequate proof of identity).

Account information may be released to your employer for verification of necessary information. The Internal Revenue Service may receive account information to comply with federal tax laws. Account information may be released as necessary under a qualified domestic relations order.

Fax Policy

FAXABLE DOCUMENTS

The following will be honored via facsimile (fax) if signed by the member:

- Requests for account information.
- Requests for beneficiary listings.
- Requests for annuity estimates.
- Changes in tax withholding.
- Changes in direct deposit.
- DCP Enrollment and Change forms

Original, signed NPERS forms are required to process annuities or payments, to change beneficiaries, or to change an address for payment requests. However, faxed applications for a retirement annuity or a refund will be accepted to determine effective date of processing of payment **if the original, signed, and notarized form is received within five working days.**

Email Policy

General questions about DCP and requests for forms may be communicated through email.

At the present time, NPERS does not answer individual account questions by email. NPERS will respond to signed, written requests.

APPEALS PROCESS

NPERS makes every effort to follow Federal and State statutes, and rules and regulations when administering the plan. As a member of DCP, you have the right of review if you disagree with a decision reached by NPERS' Director or the Public Employees Retirement Board (PERB). You must file your appeal form within 30 days after you receive notice of the Director's or the PERB's decision.

A hearing officer appointed by the PERB will schedule a formal hearing and send written notice to all parties concerned. If you wish to further appeal a decision, you are entitled to judicial review under the Nebraska Administrative Procedures Act.

The time limits prescribed may be extended at the discretion of the PERB.



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