Alternative Annuity Election Information For Employees

The following general information is provided to allow you to elect an alternative annuity benefit at this time. If you prefer, you can make your election after the Office of Personnel Management (OPM) receives your retirement package and sends you more detailed information specific to your case. If you are making an election now, have your personnel office provide you with an estimate of your annuity with and without the alternative annuity reduction. You should also read the Special Tax Notice Regarding Rollovers, RI 37-22, before making your election.

You can elect an alternative annuity if you retire on a nondisability annuity and have a life-threatening affliction or other critical medical condition. If you are married, your spouse must consent to your election. Please note that you cannot elect an alternative annuity if you have a former spouse who is entitled by court order to a portion of your annuity or a survivor annuity. (Certain senior officials and Schedule C employees are not eligible for the alternative annuity. Your agency will inform you.)

If you believe you are eligible for an alternative annuity because you have a life-threatening affliction or other critical medical condition, please attach your physician's certification of your illness to your election. OPM will determine if you are eligible for this benefit.

If you elect an alternative annuity benefit:

- Your annuity will be permanently reduced and you will receive a lump-sum payment of your retirement contributions. The reduction is determined by dividing your lump-sum credit by an actuarial factor for your age. See your agency for an estimate of the reduction.

- The amount of any survivor benefit you provide will not be affected.

- You cannot change to a disability retirement after OPM processes your retirement application.

- If you receive non-scheduled compensation from the Office of Workers' Compensation Programs (OWCP), all annuity paid AND the lump sum payment must be repaid to OPM before OWCP will pay benefits to you.

- If you receive the lump sum payment, you have incurred tax liability for that payment. That liability does not change even if you repay the lump sum to OPM.

Generally, 80% to 95% of the lump sum is taxable in the year in which it is received unless you choose to defer the income tax by rolling over all or part of the payment to an Individual Retirement Account (IRA) or another retirement plan that accepts rollovers. (For purposes of this notice, the term "IRA" includes retirement plans that accept rollovers.) If you want any portion paid directly to an IRA, the IRA sponsor (usually a financial institution) must execute part IV of your election form.

Your alternative annuity will include credit for any unpaid deposits and redeposits for creditable civilian service. These amounts are "deemed" paid. Any deemed amount in excess of the non-taxable portion of the lump-sum credit is taxable in the year the lump sum is paid unless it is rolled over. However, OPM cannot roll over these amounts. You can roll over taxable deemed amounts with your own funds within 60 days after you receive the lump sum.

If all or part of the lump sum is paid directly to an IRA:

- No income tax will be withheld from any payment rolled into a Traditional IRA; the payment will not be taxable until you take it out. Federal income tax will not be withheld from payments made to a Roth IRA unless you elect the withholding.

- OPM will send the payment directly to the IRA or to you in a check made payable to the IRA.

If all or part of the taxable portion of the lump sum is paid directly to you:

- You will receive 80% of the payment. OPM must withhold 20% for tax (including 20% of any taxable deemed amount), which will be sent to the Internal Revenue Service (IRS) to be credited against your taxes. You may be able to use special tax rules to reduce the taxes you owe. However, an additional 10% tax may apply if you receive the lump sum before age 59-1/2.

- You can defer the income tax by rolling over all or part of the taxable portion of the lump sum within 60 days after you receive it. If you want to roll over 100%, you must find other money to replace the 20% that was withheld. If you roll over the 80% you receive, you will be taxed on the 20% that was not rolled over. You cannot defer paying income tax on monies rolled into a Roth IRA.

OPM will provide you with additional information on the amounts that can be rolled over when they send you the lump-sum payment.

The following IRS publications provide more specific information on the tax treatment of payments from qualified retirement plans. IRS Publication 575, Pension and Annuity Income, IRS Publication 590, Individual Retirement Arrangements, and IRS Publication 721, Tax Guide to U.S. Civil Service Retirement Benefits. These forms are available from your local IRS office. You may also wish to consult a professional tax advisor. OPM cannot provide tax publications or tax advice.

Please keep a copy of this notice for your records

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