SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

AUGUST 2014

This notice contains important information you will need before you decide how to receive your benefits from the New York City Employees' Retirement System. The New York City Employees' Retirement System (NYCERS) is a Qualified Pension Plan under §401(a) of the Internal Revenue Code.

A payment from the Plan that is eligible for "rollover" may be taken in two ways. You may elect the taxable portion of your payment to either be distributed by 1) PAYMENT IN A "DIRECT ROLLOVER" or 2) PAYMENT TO YOU. A "direct rollover" is a payment of your NYCERS benefits to your Individual Retirement Account (IRA) or Employer Plan.

1. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER

Payments from NYCERS may constitute "eligible rollover distributions." This means that the payments can be rolled over to an IRA or qualified employer plan.

Non-Taxable Payments

In general, only the "taxable portion" of your payment is an eligible rollover distribution. If "after tax" employee contributions have been made to NYCERS, these contributions will be non-taxable when they are paid to you, and they cannot be rolled over. After-tax employee contributions are generally contributions made from the employee's pay that have already been taxed.

If the benefit consists of both taxable and non-taxable portions, the non-taxable part of the benefit will be paid directly to you even if you do elect to have the taxable portion rolled over.

2. DIRECT ROLLOVER

You can choose to have any or all of your payment that constitutes an "eligible rollover distribution" distributed as a direct rollover. In a direct rollover, the distribution is paid directly from the Plan to an IRA or Employer Plan that accepts rollovers. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or Employer Plan. No withholding tax will be taken from the part of a benefit which is rolled over.

Direct Rollover to an IRA

You may open an IRA to receive the direct rollover. (The term "IRA," as used in this notice, includes individual retirement accounts and individual retirement annuities.) If you choose to have your payment made directly to an IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to an IRA at that institution. If you are unsure of how to invest your money, you may wish to consult an investment advisor. See IRS Publication 590, Individual Retirement Arrangements, for more information on IRAs (including limits on how often you can roll over between IRAs).

Direct Rollover to a Qualified Employer Plan

The term "Qualified Retirement Plan" as used in this notice includes a Qualified Employer Plan, a qualified employer annuity, a tax-sheltered annuity plan (403(b) Plan) or an eligible state or local government section 457 deferred compensation plan. The method for choosing a Qualified Employer Plan to receive the direct rollover is the same as for a rollover from the IRA.

Payment Election Form

If you are electing to roll over any part of your eligible rollover distribution, you need to precisely designate the name, address and account number of your rollover institution, whether that is an IRA or a Qualified Employer Plan. Do not return the election form to NYCERS until you are sure that your rollover institution is able to accept such payment from us.

3. PAYMENT PAID TO YOU

If you have the eligible rollover payment made to you, it is subject to 20% income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over. If you do not roll it over, special tax rules may apply.

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Income Tax Withholding:

Mandatory Withholding

If you elect to have a portion of the payment to you that is an eligible rollover distribution, NYCERS is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if your eligible rollover distribution is $100,000, only $80,000 will be paid to you because the Plan must withhold $20,000 as income tax. For additional assistance, please consult an income tax professional when preparing your income tax return for the year.

Sixty-Day Rollover Option

If you have an eligible rollover distribution paid to you, you may choose to roll over all or part of it. If you decide to roll over any part of your payment, you must make the rollover within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the IRA or employer plan.

You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% that was withheld. However, you may receive a tax refund of that amount. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to replace the 20% that was withheld. You will not receive a NYCERS refund of the withholding tax. On the other hand, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

> Example: Your employer rollover distribution is $100,000, and you choose to have it paid to you. You will receive $80,000, and $20,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the distribution, you may still roll over any amount up to the $100,000. In this case, the entire $100,000 is not taxed until you take it out of the IRA. If you roll over the entire $100,000, you may get a refund of the $20,000 withheld when you file your tax return for the year. To do this, you will need to find $20,000 from some other source in order to have $100,000 to roll over. If on the other hand, you only roll over $80,000 or less, the amount that you did not roll over will be taxed.

It is important to note that if you elect to roll over the taxable amount, the distribution rules, restrictions, and tax consequences of the institution you choose may differ from NYCERS. You should retain any records that identify NYCERS as the source of funds that have been rolled over, in order to avoid New York State and local income taxes on future withdrawals.

10% Penalty

Some types of withdrawals from qualified retirement plans are subject to the IRS 10% penalty. If you have not reached age 55 at the time of separation (retirement or termination of membership) and distribution, you will also be subject to the additional IRS 10% penalty tax. If a withdrawal is being paid for any other reason than for separation from service, you will incur the additional 10% IRS penalty tax if you are under the age of 59 ½.

Special Tax Treatment: Averaging Methods and Capital Gains

If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. However, if it 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 the member's entire balance under the Plan. For a payment to qualify for the special tax treatment below, you must have been at least age 59 1/2 at the time of distribution.

Ten-Year Averaging

If you receive a lump-sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" to figure the tax on the payment (using 1986 tax rates) instead of 5-year averaging (using current tax rates). Like the 5-year averaging rules, 10-year averaging often reduces the tax you owe.

Capital Gain Treatment

In addition, if you receive a lump-sum distribution and you were born before January 1, 1936, you may elect to have the part of your payment that is attributable to pre-1974 participation in the Plan (if any) taxed as long-term capital gain which has a current rate of 20%. This amount will be stated on the tax form sent to you after the end of the year.

There are other limits on the special tax treatment for lump-sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump-sum distributions that you receive in that same year. If you have previously rolled over a payment from NYCERS (or certain other similar plans of the employer), you cannot use this special tax treatment for later payments from the Plan. If you roll over your payment to an IRA, you will not be able to use this special tax treatment for later payments from the IRA. Also, if you roll over only a portion of your payment to an IRA, this special tax treatment is not available for the rest of the payment. Additional restrictions are described in IRS Form 4972, which has more information on lump-sum distributions and how you elect the special tax treatment.

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the federal (not state or local) income tax rules that might apply to your payment. Benefits from NYCERS are not subject to New York State Income taxes. If you are a resident of any other State, refer to that State's tax regulations. The rules described above are complex and contain many 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 NYCERS. Also, you can find more specific information on the tax treatment of payments from qualified retirement 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 or by calling 1-800-TAX-FORMS.

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