Options for NC 401(k) and NC 457 when leaving employment

In this period of transition from your North Carolina state or local governmental agency, it’s important you make sound decisions regarding your NC 401(k) and/or NC 457 Plan accounts. To help you with that process, here is a summary of options to consider:

Option #1: Money remains in the plan

Once you separate from service, you can no longer contribute to the Plan(s), but you may remain in the Plan(s) and continue to enjoy the many benefits, such as:

- Access to monitored investments and fee arrangements exclusive to the Plan(s)
- Tax-deferred growth of your investment earnings (see chart)
- The ability to transfer money among investments in the Plan(s)
- The use of GoalMaker®, the optional asset allocation program available to you at no additional cost
- The ability to roll over money from other eligible retirement plans or IRAs

Option #2: Receive income for life through the Transfer Benefit

When you retire from the Teachers’ and State Employees’ Retirement System (TSERS) and/or the Local Government Employees’ Retirement System (LGERS), you may elect to transfer pre-tax assets from your NC 401(k) and/or NC 457 Plan accounts to the Retirement System in exchange for a stream of monthly payments, guaranteed to last your lifetime. This one-time, irrevocable election may be made at, or after, retirement, and allows additional provisions for:

- Extending the monthly payments for the lifetime of a named survivor
- Guaranteeing a refund of the amount transferred, less any amounts already paid out

More information on the Transfer Benefit can be found by visiting www.NCLifetimeIncome.org.

Option #3: Begin withdrawals

Cashing out your retirement savings should be an action of last resort, since it could hamper your efforts to achieve your long-term retirement savings goals. However, you may begin withdrawals if you’ve separated from service. The Plan(s) allow lump-sum withdrawals, partial withdrawals and systematic withdrawals.

Withdrawals of pre-tax funds usually incur income taxes. There is no early withdrawal penalty if:

- You’re in the NC 401(k) Plan and:
  - are at least age 59½
  - are deemed a qualified public safety employee and separate from service in, or after the year, you turn age 50*
  - you separate from service in, or after, the year in which you turn 55
  - regardless of your age, you elect to receive substantially equal payments based on your life expectancy
  - you are disabled or have passed away
- You’re withdrawing funds from the NC 457 Plan (at any age)

Generally, withdrawals of Roth contributions may be income tax free if you are at least 59½ and the first Roth contribution remained in your account for at least five tax years before you took your withdrawal.

*Per legislation effective January 1, 2016

The advantage of compounding

The graph below illustrates how your account balance could potentially grow over time, based on a 5% annual interest rate, if your Plan account balance is currently $25,000, and you make no additional contributions.

Assumes 5% interest. The compounding concept is hypothetical and for illustrative purposes only, and is not intended to represent the performance of any specific investment, which may fluctuate. No taxes are considered in calculations; generally, withdrawals are taxable at ordinary income rates. It is possible to lose money by investing in securities.
Option #4: Roll your savings into an IRA or a new employer’s retirement plan

This path allows your assets and earnings to continue to grow tax-deferred until you begin taking withdrawals. However, once rolled into another plan, your account could be subject to fees or restrictions that are not present in your NC 401(k) and/or NC 457 Plan account(s). Additionally, investment options are limited to those offered by the new plan.

Important information for members with Bailey vested accounts: If you contracted to contribute to the NC 401(k) and/or the NC 457 Plan by submitting an enrollment form on or before August 12, 1989, your account may be Bailey vested. As such, withdrawals from those retirement plan accounts are North Carolina tax exempt. However, rolling your account(s) to another plan or IRA may affect your North Carolina tax-exempt status. Before initiating a rollover, consult your tax advisor and review the Bailey Settlement Directives located on the North Carolina Department of Revenue website at www.dor.state.nc.us (select: Information for Tax Professionals, Directives, Individual Income Tax). You may also call the North Carolina Department of Revenue at 919-733-3565 or write to the Department of Revenue Personal Taxes Division at P.O. Box 871, Raleigh, North Carolina 27602-0871.

Option #5: Make a special contribution

You may be due to receive a final payout of unused vacation/sick leave, bonus days and/or prorated longevity. In order to better manage your taxable income for the year, you can elect to contribute funds from that final payout to your retirement plan account, as long as you do not exceed the current maximum contribution allowance. The deduction will occur only once, and then it will revert back to the previous amount being deducted (if any).

You can begin by filling out the “One-Time Contribution” form located on www.NCPlans.prudential.com and follow the directions provided.