



TAX SHELTER ELECTION FORM FOR POLITICAL SUBDIVISION EMPLOYERS

*Required by internal revenue code section 414(h) for employees' retirement contributions
to be treated as being picked up by the employer*

The treatment of employee contributions to the New Hampshire Retirement System ("NHRS") as employer contributions, also known as the tax sheltering of employee contributions, permits such contributions to be excluded from the employee's gross income for tax reporting purposes, making these contributions not subject to federal income tax until distribution from the plan. Formal employer action is necessary for contributions to be picked up. This election is effective only on a prospective basis and only upon processing of this form by NHRS. A copy of the completed form will be provided to the electing Employer.

To the New Hampshire Retirement System Board of Trustees:

The _____ hereby notifies the Board of Trustees its election to "pick-up" the employee contributions under the provisions of Internal Revenue Code § 414(h)(2) and RSA 100-A:16, I(e) with respect to all of its Employee, Teacher, Police Officer, and Firefighter members of the NHRS ("participation in tax shelter program").

The Employer understands that by making this election, it is required to make any necessary changes to its tax reporting procedures so that payroll deductions for **all** NHRS mandatory employee contributions **are not** reported as taxable wages for Federal income tax purposes **but will** be reported as wages for purposes of F.I.C.A. and Medicare taxes, if required by Federal law. All NHRS members in the employ of Employer shall be included in the tax shelter program with no exceptions.

This form is designed to comply with the formal action requirement set forth in Revenue Ruling 2006-43, issued by the Internal Revenue Service. Participating employees must not be permitted to opt out of the "pick-up," or to receive the contributed amounts directly instead of having them paid by the Employer to NHRS.

The employer is requesting that the tax sheltering of contributions be effective as of the beginning of the first payroll period commencing in the month of _____.
(Prospective Date: Month and Year)

Signature of Chief Fiscal Officer:

Date:

Chief Fiscal Officer's Name and Title (*Please print*):

Employer NHRS ID Number (*To be assigned by NHRS*): #

CERTIFICATION OF ELECTION

I hereby certify that on _____ the governing body of _____ elected
(Date) (Name of Employer)
to participate **prospectively** in the New Hampshire Retirement System's tax shelter program under the provisions of RSA 100-A:16, I(e) and Internal Revenue Code Section 414(h).

Signature of Administrative Authority:

Date:

Title:

Please return this form with a copy of the document evidencing the governing body's adoption of the tax shelter program to: NHRS Field Audit Division, 80 Commercial Street, Concord, NH 03301-5031

FOR NEW HAMPSHIRE RETIREMENT SYSTEM USE ONLY

This acknowledges NHRS' receipt of the election by _____ to participate in the tax shelter
(Name of Employer)
provisions of the New Hampshire Retirement System. Effective with contributions for the first complete payroll period
beginning in the month of _____, all deductions for members' mandatory retirement contributions shall be
(Month)
considered pre-tax contributions under the provisions of RSA 100-A:16, I(e) and Internal Revenue Code 414(h).

NHRS Executive Director or Designee:

Date:

The New Hampshire Retirement System (NHRS) is governed by New Hampshire RSA 100-A, rules, regulations, and Federal laws including the Internal Revenue Code. NHRS also implements policies adopted by the Board of Trustees. These laws, rules, regulations, and policies are subject to change. Even though the goal of NHRS is to provide information that is current, correct, and complete, NHRS does not make any representation or warranty as to the current applicability, accuracy, or completeness of any information provided. The information herein is intended to provide general information only, and should not be construed as a legal opinion or as legal advice. Members are encouraged to address specific questions, regarding NHRS, with an NHRS representative. In the event of any conflict between the information herein and the laws, rules, and regulations which govern NHRS, the laws, rules, and regulations shall prevail.

NHRS 13
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RSA 100-A:16 METHOD OF FINANCING

I. Member Annuity Savings Fund

(e) With respect to all employees of an employer, such employer may pick up the employee contributions required by this section for all compensation earned after July 1, 1983; and the contributions so picked up shall be treated as employer contributions in determining federal tax treatment under the United States Internal Revenue Code; however, each employer shall continue to withhold federal income tax based upon these contributions until the Internal Revenue Service, or the federal courts, rule that, pursuant to section 414(h) of the United States Internal Revenue Code (1954), as amended, these contributions shall not be included as gross income of the employee until such time as they are distributed or made available. The employer shall pay these employee contributions from the same source of funds which is used in paying earnings to the employee. The employer may pick up these contributions by a reduction in the cash salary of the employee. Employee contributions picked up shall be treated for all purposes of this section in the same manner and to the same extent as employee contributions made prior to the date picked up.

Two Potential Drawbacks of Withdrawing Your NHRS Contributions — And One Way to Help Avoid Them

1. Refund of Contributions Is Subject to Immediate 20% Withholding

Generally, terminating NHRS members who withdraw their accumulated contributions in a lump sum will have 20% of the taxable part of their refund withheld immediately for federal income tax purposes, unless the distribution is directly rolled over from the New Hampshire Retirement System to another qualified plan or an Individual Retirement Arrangement (IRA) and excluding any portion which is considered a Required Minimum Distribution.

2. An Additional 10% Early Distribution Tax on the Taxable Portion of Your Refund

If you are under the age of 59½, you will have to pay the 10% additional income tax on early distributions for any payment from NHRS (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over. The 10% additional income tax does not apply to the following payments from NHRS:

- Payments made after you separate from service if you will be at least 55 in the year of separation

- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Payments from NHRS made after you separate from service if you are a public safety employee and, in the year of separation, have reached age 50 or 25 years of service in NHRS
- Payments made due to disability
- Payments after your death
- Corrective distributions of contributions that exceed tax law limitations
- Payments made directly to the government to satisfy a federal tax levy
- Payments made under a qualified domestic relations order (QDRO)
- Payments after you receive a certification from a physician that you have a terminal illness (terminal illness distributions)
- Payments that are qualified disaster recovery distributions
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year)

3. To Avoid the Mandatory 20% Withholding and the 10% Early Distribution Tax

The taxable portion of your refund must be directly rolled over from NHRS to another qualified retirement plan or an IRA. Both the early distribution tax and the mandatory federal tax withholding are avoided if the taxable portion is directly rolled over into either another qualified plan or an IRA. If a direct rollover is not requested by a member, an automatic 20% will be withheld on the taxable portion. A Special Tax notice explaining these requirements in more detail will be provided to the member upon withdrawal of their contributions, explaining this information in more detail. A copy of the notice is included with this package.

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