

## SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

This notice explains how you can continue to defer federal income tax on your retirement plan savings in the Plan and contains important information you will need before you decide how to receive your Plan benefits. All references to "the Code" are references to the Internal Revenue Code of 1986, as amended. This notice summarizes only the federal (not state or local) tax rules which apply to your distribution. Because these rules are complex and contain many conditions and exceptions which we do not discuss in this notice, you may need to consult with a professional tax advisor before you receive your distribution from the Plan.

### A. TYPES OF PLAN DISTRIBUTIONS

**Eligibility for rollover.** The Code classifies distributions into two types: (1) distributions you may roll over ("eligible rollover distributions") and (2) distributions you may not roll over. (See "Distributions not eligible for rollover." below.) You may also receive a distribution where part of the distribution is an eligible rollover distribution and part is not eligible for rollover. A rollover is a payment by you or the Plan Administrator of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you (except for a rollover from a pre-tax account to a Roth IRA, described in the last paragraph of Section B below). The Plan Administrator will assist you in identifying which portion of your distribution is an eligible rollover distribution and which portion is not eligible for rollover.

**Plans that may accept a rollover.** You may roll over an eligible rollover distribution either to a Roth IRA, a traditional IRA or an eligible employer plan that accepts rollovers. An "eligible employer plan" includes a plan qualified under Code Section 401(a), including a 401(k) plan, profit sharing plan, defined benefit plan, stock bonus plan (including an ESOP), and money purchase plan; a Section 403(a) annuity plan; a 403(b) plan; and an eligible Section 457(b) plan maintained by a governmental employer (governmental 457 plan). Special rules apply to the rollover of after-tax contributions. See "After-tax contributions" below. **YOU MAY NOT ROLL OVER ANY DISTRIBUTION TO A SIMPLE IRA OR A COVERDELL EDUCATION SAVINGS ACCOUNT (FORMERLY KNOWN AS AN EDUCATIONAL IRA).**

**Deciding where to roll over a distribution.** An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions, such as after-tax amounts. If this is the case, and your distribution includes after-tax amounts, you may wish instead to roll over your distribution to an IRA or to split your rollover amount between the employer plan in which you will participate and an IRA. You should also find out about any documents you must complete before a "receiving" plan or IRA sponsor will accept a rollover. If you do a rollover to another plan or an IRA, the rules of that plan or IRA will determine your

investment options, fees and rights to payment from that plan or IRA. If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse's consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from this Plan. Check with the administrator of the plan that is to receive your rollover, regarding subsequent distributions and taxation of the amount you will roll over, prior to making the rollover.

**Distributions not eligible for rollover.** An eligible rollover distribution means any distribution to you of all or any portion of your account balance under the Plan except the following:

*Required minimum distributions.* Beginning in the year in which you retire or reach age 70 1/2 (whichever is later), the Code may require the Plan to make "required minimum distributions" to you. You may not roll over the required minimum distributions. Special rules apply if you own more than 5% of the Employer.

*Corrective distributions.* You may not roll over a distribution from the Plan to correct a failed nondiscrimination test or because legal limits on certain contributions were exceeded.

*Substantially equal periodic payments.* You may not roll over a distribution if it is part of a series of substantially equal payments made at least once a year and which will last for: (1) your lifetime (or your life expectancy), (2) your lifetime and your beneficiary's lifetime (or life expectancies), or (3) a period of 10 years or more.

*Loans treated as taxable "deemed" distributions.* You may not roll over the amount of a plan loan that becomes a taxable deemed distribution because of a default. However, a loan offset amount is eligible for rollover, as discussed in Part C below. Ask the Plan Administrator if distribution of your loan qualifies for rollover treatment.

*Hardship distributions, including unforeseeable emergency distributions from a governmental 457(b) plan.* You may not roll over a distribution that is made to you from the Plan on account of a hardship (or, if this is a governmental 457(b) plan, an unforeseeable emergency).

*Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.* If the Plan Administrator automatically enrolled you in the Plan and you requested that the amounts taken from your pay due to that automatic enrollment be paid back to you, you may not roll over that payment.

*Costs of life insurance paid by the Plan.* If the Plan has purchased an insurance policy on your life, amounts treated as distributions to you for the cost of that life insurance protection may not be rolled over.

*ESOP dividends and amounts treated as distributed because of a prohibited allocation of S corporation stock under an ESOP.* If the Plan is an Employee Stock Ownership Plan, dividends paid to you from the Plan cannot be rolled over. In addition, if the Plan holds S corporation stock and amounts are treated as distributed to you because of a prohibited allocation under the Plan, those amounts cannot be rolled over. (Note that there generally will be adverse tax consequences if you roll over a distribution of S corporation stock to an IRA.)

#### **After-tax contributions.**

*Distributions of after-tax contributions.* After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is included in the payment, so you cannot take a payment of only after-tax contributions. However, if you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a payment.

*Rollover of after-tax contributions into an IRA.* You may roll over after-tax contributions, if any, to an IRA either directly or indirectly. The Plan Administrator will assist you in identifying how much of your payment is the taxable portion and how much is the after-tax portion. If you roll over after-tax contributions to an IRA, it is your responsibility to keep track of, and report to the IRS on the applicable forms, the amount of these after-tax contributions. This will enable you to determine the nontaxable amount of any future distributions from the IRA. Once you roll over your after-tax contributions to an IRA, you may NOT later roll over those amounts to an employer plan, but may roll over your after-tax contributions to another IRA.

*Rollover of after-tax contributions into an employer plan.* You may DIRECTLY roll over after-tax contributions, if any, from the Plan to another qualified plan (including a defined benefit plan) or to a 403(b) plan if the other plan will accept the rollover and provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You may NOT roll over after-tax contributions from the Plan to a Section 403(a) annuity plan, or to a governmental 457 plan. If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the Plan Administrator to make a direct rollover on your behalf. Also, you may not first roll over after-tax contributions to an IRA and then roll over that amount into an employer plan. You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

*Direct rollovers of only a portion of a distribution that includes after-tax contributions.* If you do a direct rollover of only a portion of the amount paid from the Plan and at the same time the rest is paid to you, the portion directly rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of \$12,000, of which \$2,000 is after-tax contributions. In this case, if you directly roll over \$10,000 to an IRA that is not a Roth IRA, no amount is taxable because the \$2,000 amount not directly rolled over is treated as being after-tax contributions. If you do a direct

rollover of the entire amount paid from the Plan to two or more destinations at the same time, you can choose which destination receives the after-tax contributions.

*Indirect (60-day) rollovers of only a portion of a distribution that includes after-tax contributions.* If you do an indirect (60-day) rollover (see Section C below) to an IRA of only a portion of a payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a distribution of \$12,000, of which \$2,000 is after-tax contributions, and no part of the distribution is directly rolled over. In this case, if you roll over \$10,000 to an IRA that is not a Roth IRA in an indirect rollover, no amount is taxable because the \$2,000 amount not rolled over is treated as being after-tax contributions.

**30-Day Notice Period/Waiver.** After receiving this notice, you have at least 30 days to consider whether to receive your distribution or have the distribution directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your distribution then will be processed in accordance with your election as soon as practical after the Plan Administrator receives your election.

#### **B. DIRECT ROLLOVER**

**Direct rollover process.** You may elect a direct rollover of all or any portion of an eligible rollover distribution. If you elect a direct rollover, the Plan Administrator will pay the eligible rollover distribution directly to your IRA or to another eligible employer plan which you have designated. Alternatively, for the cash portion of your distribution, if any, the Plan Administrator may give you a check negotiable by the trustee or custodian of the recipient eligible employer plan or IRA. To complete the direct rollover, you must deliver the check to that trustee/custodian. A direct rollover amount is not subject to taxation at the time of the rollover, unless the direct rollover is from a pre-tax account to a Roth IRA. Except for a direct rollover of a pre-tax amount to a Roth IRA, the taxable portion of your direct rollover will be taxed later when you take it out of the IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to *different tax treatment* than it would be if you received a taxable distribution from this Plan. If you elect a direct rollover, your election form must include identifying information about the recipient IRA or plan.

**Treatment of periodic distributions.** If your Plan distribution is a series of payments over a period of less than ten years, each payment is an eligible rollover distribution. Your election to make a direct rollover will apply to all payments unless you advise the Plan Administrator of a change in your election. The Plan might not let you choose a direct rollover if your distributions for the year are less than \$200 (not including payments from a designated Roth account under the Plan). However, you may do a 60-day rollover (see Section C below) even if your distributions for the year are less than \$200.

**Splitting a distribution/small distributions.** If your distribution exceeds \$500 (not including payments from a designated Roth account under the Plan), you may elect a direct rollover of only a part of your distribution, provided the portion directly rolled over is at least \$500. If your distribution is \$500 or less, you must elect either a direct rollover of the entire amount or payment of

the entire amount. The Plan might not let you choose a direct rollover if your distributions for the year are less than \$200.

**Change in tax treatment resulting from a direct rollover.** The tax treatment of any payment from the eligible employer plan or IRA receiving your direct rollover might be different than if you received your benefit in a taxable distribution directly from the Plan. For example, if you were born before January 2, 1936, you might be entitled to ten-year averaging or capital gain treatment, as explained below. However, if you roll over your benefit to a 403(b) plan, a governmental 457 plan, or an IRA, your benefit will no longer be eligible for that special treatment. See the sections below entitled "10% penalty tax if you are under age 59 1/2" and "Special tax treatment if you were born before January 2, 1936."

**Taxation of direct rollover of pre-tax distribution to Roth IRA.** If you directly roll over a pre-tax distribution to a Roth IRA, the taxable portion of the distribution is subject to taxation for the taxable year in which the distribution occurs. However, the 10% penalty tax described in Section C below will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59 1/2 (or after your death or disability, or as a qualified first-time homebuyer distribution of up to \$10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% penalty tax described in Section C below (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime.

**If you do a rollover to a designated Roth account in the Plan.** You cannot roll over a distribution from this Plan to a designated Roth account in another employer's plan. However, you can roll the distribution from this Plan over into a designated Roth account in the Plan if the Plan offers this option. If you roll over a payment from the Plan to a designated Roth account in the Plan, the amount of the payment rolled over (reduced by any after-tax amounts directly rolled over) will be taxed. However, the 10% penalty tax described in Section C below will not apply (unless you take the amount rolled over out of the designated Roth account within the 5-year period that begins on January 1 of the year of the rollover).

If you roll over a payment from this Plan to a designated Roth account in the Plan, later payments from the designated Roth account that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a designated Roth account is a payment made both after you are age 59½ (or after your death or disability) and after you have had a designated Roth account in the Plan for at least 5 years. In applying this 5-year rule, you count from January 1 of the year your first contribution was made to the designated Roth account. However, if you made a direct rollover to a designated Roth account in the Plan from a designated Roth account in a plan of

another employer, the 5-year period begins on January 1 of the year you made the first contribution to the designated Roth account in the Plan or, if earlier, to the designated Roth account in the plan of the other employer. Payments from the designated Roth account that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% penalty tax described in Section C below (unless an exception applies).

## C. DISTRIBUTIONS YOU RECEIVE

**Taxation of eligible rollover distributions.** The taxable portion of an eligible rollover distribution which you elect to receive is taxable to you in the year you receive it unless, within 60 days following receipt, you roll over the distribution to an IRA or to another eligible employer plan.

**Withholding on eligible rollover distributions.** The taxable portion of your eligible rollover distribution is subject to 20% federal income tax withholding. You may not waive this withholding. For example, if you elect to receive a taxable eligible rollover distribution of \$5,000, the Plan will pay you only \$4,000 and will send to the IRS \$1,000 as income tax withholding. You will receive a Form 1099-R from the Plan reporting the full \$5,000 as a distribution from the Plan. The \$1,000 withholding amount applies against any federal income tax you may owe for the year. The direct rollover is the *only* means of avoiding this 20% withholding.

**60-day rollover option.** The direct rollover explained in Section B above is not the only way to make a rollover. If you receive payment of an eligible rollover distribution, you may still roll over all or any portion of the distribution to an IRA or to another eligible employer plan that accepts rollovers. If you decide to roll over the distribution, *you must make the rollover within 60 days of your receipt of the payment.* The portion of your distribution which you elect to roll over is not subject to taxation until you receive distributions from the IRA or eligible employer plan, except that a rollover of a distribution from a pre-tax account to a Roth IRA is subject to taxation in the taxable year in which the distribution occurs.

You may roll over 100% of your eligible rollover distribution even though the Plan Administrator has withheld 20% of the distribution for income tax withholding. If you elect to roll over 100% of the distribution, you must obtain *other money* within the 60-day period to contribute to the IRA or eligible employer plan to replace the 20% withheld. If you elect to roll over only the 80% which you receive, the 20% withheld will be subject to taxation.

*Example.* Assume your eligible rollover distribution is \$5,000, and you do not elect a direct rollover. The Plan pays you \$4,000, withholding \$1,000 for income taxes. However, assume within 60 days after receiving the \$4,000 payment, you decide to roll over the entire \$5,000 distribution. To make the rollover, you will roll over the \$4,000 you received from the Plan and you will contribute \$1,000 from other sources (your savings, a loan, etc.). In this case, you will not have any tax liability with respect to the Plan distribution. The Plan will report a \$5,000 distribution for the year and you will report a \$5,000 rollover. When you file your income tax return, you may receive a refund of the \$1,000 withheld. If you roll over only the \$4,000 paid from the Plan, the \$1,000 you do not roll over is taxable. In addition, the \$1,000 you do not roll over may be subject to a 10% penalty tax.

See "10% penalty tax if you are under age 59 1/2" below. When you file your income tax return, you still may receive an income tax refund, but the refund likely will be smaller because \$1,000 of the distribution is taxable.

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevent you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information regarding waiver of the 60-day rollover deadline, see IRS Publication 590-A.

**Withholding on distributions not eligible for rollover.** The 20% withholding described above does not apply to any taxable portion of your distribution that is *not* an eligible rollover distribution. You may elect whether to have federal income tax withholding apply to that portion. If you do not wish to have any income taxes withheld on that portion of your distribution, or if you wish to have an amount other than 10% withheld, you will need to sign and date IRS Form W-4P, checking the box opposite line 1. The Plan Administrator will provide you with Form W-4P if your distribution includes an amount that does not constitute an eligible rollover distribution. If you do *not* return the Form W-4P to the Plan Administrator prior to the distribution, the Plan Administrator will treat the failure to return the form as an *affirmative election* to have 10% withholding apply.

**10% penalty tax if you are under age 59 1/2.** If you receive a distribution from the Plan before you reach age 59 1/2 and you do not roll over the distribution, the taxable portion of your distribution is subject to a 10% penalty tax in addition to any federal income taxes unless an exception applies. There are numerous exceptions to the 10% penalty tax. For example, the 10% penalty tax does not apply if you separate from service with the Employer during or after the year in which you attain age 55, and then receive a distribution.

If you do a rollover to another employer plan or an IRA, the 10% penalty tax will not apply to distributions you take from that plan or IRA if you are over age 59 1/2 at the time you take those distributions, even if you were under age 59 1/2 at the time you did the rollover to that plan or IRA. If you do a rollover to an IRA and begin distributions from that IRA prior to attaining age 59 1/2, you should be aware that the exceptions to the 10% penalty tax for IRAs differ somewhat from those for employer plans. For example, the exception for distributions taken after separation from service after attainment of age 55 described above does not apply to distributions from an IRA.

See the instructions to IRS Form 5329 for more information on the 10% penalty tax. In the addition to the exceptions to the 10% penalty tax listed in those instructions, the costs of life insurance paid by the Plan that are taxable to you and payments to you of certain automatic enrollment contributions you requested be withdrawn from the Plan within 90 days of the first automatic contribution made for you to the Plan are not subject to the 10% penalty tax.

The 10% penalty tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution (including earnings) is attributable to an amount you rolled over to that plan from another type of eligible employer plan or IRA.

Any amount rolled over *from* a governmental 457 plan to another type of eligible employer plan or to a traditional IRA will become subject to the additional 10% tax if it is distributed to you before you reach age 59 1/2, unless one of the exceptions applies.

**Special tax treatment if you were born before January 2, 1936.** If your distribution is a "lump-sum distribution," and you were born before January 2, 1936, you may elect one of the special tax treatments described in IRS Publication 575.

**Repayment of participant loans.** If you have an outstanding participant loan when you separate from service with the Employer, the Employer may reduce ("offset") your account balance by the outstanding loan balance. The loan offset is a distribution and is taxable (including the 10% penalty tax if you are under age 59 1/2 at the time of the offset) unless you roll over the amount of the offset within 60 days of the date of the offset. Withholding does not apply if the loan offset is your only distribution. If you receive a distribution of cash or property in addition to the offset, withholding will apply to the entire distribution, but the withholding amount will not exceed the amount of cash or property (other than employer securities) you receive in addition to the offset. You may not roll over the amount of a defaulted plan loan that is a taxable *deemed* distribution.

**Distributions to eligible retired public safety officers.** If the Plan is a governmental plan, you retired as a public safety officer, and your retirement was due to disability or after attainment of normal retirement age, you can exclude from your taxable income payments paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your Employer maintains for you, your spouse, or your dependents, up to a maximum of \$3,000 annually. For this purpose, a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew.

**Government publications.** IRS Publications 571, 575, 590-A and 590-B, provide additional information about the tax treatment of plan distributions and rollovers. These publications are available from your local IRS office, on the IRS's Internet Website at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORM.

**Employer securities.** The Code provides a special rule for a distribution which includes Employer securities (*i.e.*, stock of the Employer). In order to take advantage of this special rule: (1) the distribution must be paid in a lump sum after separation from service, attainment of age 59 1/2, disability or death; or (2) the Employer stock must be attributable to after-tax employee contributions. Under this special rule, you have the option of not paying the tax on the "net unrealized appreciation" of the stock until you sell the stock. In addition, when you sell the stock, the net unrealized appreciation will be taxed at capital gain rates. Net unrealized appreciation generally is the increase in the value of the Employer stock while the Plan held the stock. For example, if the Employer contributed Employer stock to your account when the stock was worth \$500 but the stock is worth \$800 when you receive it, you could elect not to pay the tax on the \$300 increase in value until you later sold the stock. The Plan Administrator can tell you the amount of any net unrealized appreciation included in your distribution.

**Election against special rule.** You may elect not to have the special rule apply to net unrealized appreciation. If you elect not

to apply the special rule, your net unrealized appreciation is taxable in the year of distribution, unless you roll over the stock. You may roll over the stock to an IRA or to another eligible employer plan in a direct rollover or a rollover which you make yourself. Generally, you no longer will be able to use the special rule for net unrealized appreciation if you roll over the stock to an IRA or to another eligible employer plan.

**Withholding requirements.** If you receive only Employer stock in a distribution that is eligible for rollover, withholding will not apply to the distribution. If you receive cash or property other than Employer stock, as well as Employer stock, in a distribution that is eligible for rollover, the Plan will base the 20% withholding amount on the entire taxable amount paid to you (including the value of the Employer stock determined by excluding the net unrealized appreciation). However, the amount withheld will not exceed the cash or property (excluding Employer stock) paid to you.

**Surviving spouse beneficiary.** If you are receiving a distribution from the Plan as the surviving spouse of a deceased participant, you have the same rollover options as those the participant would have had, as described elsewhere in this notice. If you do not do a rollover, the distribution generally will be taxed as described in this notice, except that the 10% penalty tax and the special rules for public safety officers do not apply and the special rules for those born before January 2, 1936 only apply if the participant was born before January 2, 1936. If you choose to do a rollover to an IRA, you may treat the IRA as your own IRA or as an inherited IRA. If you treat the rollover IRA as your own, it is treated like any other IRA of yours. For example, any distribution you take from that IRA prior to age 59 1/2 will be subject to the 10% penalty tax and you will be required to start taking distributions when you attain age 70 1/2. If you treat the rollover IRA as an inherited IRA, payments from the IRA will not be subject to the 10% penalty tax, but, if the participant had been taking required minimum distributions from the Plan before his or her death, you will have to receive required minimum distributions from the inherited IRA. If the participant had not been taking required minimum distributions from the Plan before his or her death, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70 1/2.

**Non-spouse beneficiary.** If you are a non-spouse beneficiary, the following special rules apply to you.

**Eligibility for rollover.** You may either receive a distribution of the death benefit or may directly roll over the death benefit to an IRA you establish to receive the distribution. If you receive the death benefit, you may not subsequently roll over the death benefit. If you roll over the death benefit to an IRA, the rollover must be by a direct transfer (*i.e.*, direct rollover) from the Plan to the IRA. You may directly roll over the death benefit either to a Roth IRA (which will result in taxable income to you, as explained elsewhere in this notice) or to a traditional IRA (which will defer taxation of the death benefit until it is distributed from the IRA). You may not roll over any distribution that the participant would have had to take as a "lifetime" required minimum distribution for the year of the participant's death. The Code treats the rollover IRA as an "inherited" IRA. This means you, at a later date, may not transfer the IRA assets to another IRA you own or to any other retirement plan. The 10% penalty tax for distributions before age 59 1/2 will not apply to a later distribution from the

IRA, even if you are not age 59 1/2 at the time of the distribution. You will have to receive required minimum distributions from the inherited IRA, beginning with the year after the year of the participant's death. The IRA trustee or custodian, or your tax advisor, can help you determine the amount of each year's required distribution amount.

**Distributions you receive.** The taxable portion of a death distribution which you elect to receive from the Plan is taxable to you in the year you receive the distribution. The 10% penalty tax does NOT apply to death benefit distributions to a beneficiary.

**QDRO Alternate Payee.** If you are an "Alternate Payee" under a QDRO (as described below), you have the same options as the participant would have, as described elsewhere in this notice, except as noted below.

Generally, a QDRO is an order issued by a court in connection with a divorce or legal separation awarding a participant's spouse or former spouse (referred to in the order as an "Alternate Payee") an interest in the participant's account balance under the Plan.

**10% penalty tax if you are under age 59 1/2.** The 10% penalty tax does NOT apply to Plan distributions to you as an Alternate Payee pursuant to a QDRO, even if you are under age 59 1/2 at the time of the distribution. However, if you roll over your QDRO distribution to an IRA or another employer plan, the taxable portion of any distribution from the recipient IRA or eligible employer plan paid to you before you reach age 59 1/2 will be subject to the 10% penalty tax.

#### **D. OTHER SPECIAL RULES**

**Nonresident aliens.** If you are a nonresident alien and you do not do a direct rollover of an eligible rollover distribution to a U.S. IRA or U.S. employer plan, instead of the 20% mandatory withholding described above, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see IRS Publication 519 and IRS Publication 515.

**Mandatory cashouts.** Unless you elect otherwise, a mandatory cashout of more than \$1,000 (not including payments from a designated Roth account in the Plan) must be directly rolled over to an IRA chosen by the Plan Administrator or the payor. The Plan may provide for direct rollovers to IRAs of mandatory cashouts of less than \$1,000. A mandatory cashout is a payment from a plan to a participant which is made before the participant attains age 62 (or normal retirement age, if later) and without the participant's consent, where the participant's benefit does not exceed \$5,000 (not including any amounts held under the plan as a result of a prior rollover made to the plan). A plan may provide for a lower mandatory cashout amount or may provide that all distributions, regardless of amount, require participant consent.

**Members of the U.S. Armed Forces.** You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3.

## E. DISTRIBUTIONS FROM DESIGNATED ROTH ACCOUNTS

If the Plan allows Roth (after-tax) deferrals to be made to the Plan, special tax rules apply to distributions from the Roth deferral account under the Plan (referred to below as a designated Roth account).

### **Distributions from designated Roth accounts that are not rolled over.**

*In General.* If you do not roll over a distribution from your designated Roth account under the Plan, the portion of the distribution that represents your Roth contributions is not taxed, but the earnings on those contributions will be taxed if the distribution is not a qualified distribution. If you are under age 59 1/2 at the time of the distribution, the 10% penalty tax described in Section C above will apply to the taxable portion of the distribution unless one of the exceptions described in Section C applies. If the distribution is a qualified distribution, no part of the distribution is subject to tax. If a payment is only part of your designated Roth account, the payment will include an allocable portion of the earnings in your designated Roth account.

A qualified distribution from a designated Roth account in the Plan is a payment made after you are age 59 1/2 (or after your death or disability) and after you have had a designated Roth account in the Plan for at least 5 years. In applying the 5-year rule, you count from January 1 of the year your first contribution was made to the designated Roth account. However, if you did a direct rollover to a designated Roth account in the Plan from a designated Roth account in another employer plan, your participation will count from January 1 of the year your first contribution was made to the designated Roth account in the Plan or, if earlier, to the designated Roth account in the other employer plan.

*Withholding.* If you receive a distribution from your designated Roth account that is not a qualified distribution, the Plan must withhold 20% of the earnings being distributed for federal income taxes (up to the amount of cash and property received other than Employer stock).

*Distributions including Employer securities.* If you receive a distribution from your designated Roth account that is not a qualified distribution and the distribution includes Employer securities, the special tax rules described in the portion of Section C above entitled "Employer securities" may apply to the taxable portion of the distribution. If you receive a qualified distribution from your designated Roth account that includes Employer securities, your basis in the securities (used to determine gain or loss when you later sell the stock) will equal the fair market value of the securities at the time of payment from the Plan.

*Loan offsets.* If a loan offset is not a qualified distribution, the earnings in the loan offset will be taxable (and may be subject to the 10% penalty tax, if applicable), unless you do a 60-day rollover in the amount of the earnings in the loan offset to a Roth IRA or a designated Roth account in another employer plan.

*Additional special rules.* If you receive a distribution from your designated Roth account that is not a qualified distribution, the special rules described in Section C above for participants born

before January 2, 1936 and participants who are eligible retired public safety officers may apply to the taxable portion of the distribution.

### **Rollovers from designated Roth accounts.**

*Direct rollovers.* You may do a direct rollover of all or a portion of your designated Roth account to a Roth IRA or a designated Roth account in an employer plan that will accept the rollover. If you want to do a direct rollover, you should contact the Roth IRA sponsor or the administrator of the employer plan to which you want to do the rollover for information on how to do the rollover. If you do a direct rollover of a portion of the amount being distributed from your designated Roth account and a portion of the distribution is paid to you at the same time, the portion directly rolled over consists first of earnings. A direct rollover can be made from any amount distributed from your designated Roth account except those amounts described in the portion of Section A above entitled "Distributions not eligible for rollover."

*60-day rollovers.* You also can do a 60-day rollover (described in Section C above) to a Roth IRA. A 60-day rollover to a Roth IRA can be made from any amount distributed from your designated Roth account except those amounts described in the portion of Section A above entitled "Distributions not eligible for rollover." You can do a 60-day rollover to a designated Roth account in another employer plan only if the distribution being rolled over is not a qualified distribution and the rollover does not exceed the amount of the earnings in the distribution. If you do a 60-day rollover of a distribution that is not a qualified distribution, you will need to use other funds to make up the 20% withheld for federal income taxes as described above in order to roll over the entire distribution. If you do not make up the 20% withheld, that amount will be a taxable distribution to you. In some circumstances, if you miss the 60-day rollover deadline, the IRS may waive the deadline. See the discussion in the portion of Section C above entitled "60-day rollover option" for more information.

*Impermissible rollovers.* You cannot do a rollover from your designated Roth account to a traditional IRA or an employer plan that does not permit Roth deferrals.

*Effect of rolling over a distribution from a designated Roth account.* If you do a rollover from your designated Roth account under the Plan to a Roth IRA or a designated Roth account in another employer plan, the rules of the Roth IRA or employer plan that receives the rollover will determine your investment options, fees, and rights to payment from the Roth IRA or employer plan (for example, no spousal consent rules apply to Roth IRAs and Roth IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the Roth IRA or the designated Roth account in the receiving employer plan. In general, these tax rules are similar to those described elsewhere in this notice, but differences include:

- If you do a rollover to a Roth IRA, all of your Roth IRAs will be considered for purposes of determining whether you have satisfied the 5-year rule for a qualified distribution (counting from January 1 of the year for which your first contribution was made to any of your Roth IRAs).
- If you do a rollover to a Roth IRA, you will not

be required to take a distribution from the Roth IRA during your lifetime and you must keep track of the aggregate amount of the after-tax contributions in all of your Roth IRAs (in order to determine your taxable income for later Roth IRA payments that are not qualified distributions).

- Eligible rollover distributions from a Roth IRA can only be rolled over to another Roth IRA.
- If you do a rollover to a Roth IRA and you take a distribution from the Roth IRA prior to age 59 1/2 that is not a qualified distribution, the exceptions to the 10% penalty tax will be those applicable to IRAs, not those applicable to distributions from this Plan.

#### **Death benefits paid from designated Roth accounts.**

*In General.* If you receive a distribution from a designated Roth account under the Plan as the beneficiary of a deceased participant and you do not do a rollover, the distribution generally will be taxed in the same manner as described elsewhere in this Section E. However, whether the distribution is a qualified distribution generally depends on when the participant first made a contribution to the designated Roth account. In addition, the 10% penalty tax and the special rule for eligible retired public safety officers do not apply and the special rules for distributions that are not qualified distributions for those born before January 2, 1936 apply only if the participant was born before January 2, 1936.

*Surviving spouse beneficiaries.* If you are the surviving spouse of a deceased participant, you have the same rollover options for the participant's designated Roth account as the participant would have had. In addition, if you do a rollover to a Roth IRA, you may treat the Roth IRA either as your own IRA or as an inherited IRA. If you treat the rollover Roth IRA as your IRA, it will be treated as any other Roth IRA you have, so you will not need to take required minimum distributions during your lifetime and earnings paid to you in a nonqualified distribution before you are age 59 1/2 will be subject to the 10% penalty tax. If you treat the rollover IRA as an inherited IRA, the 10% penalty tax will not apply even if you receive a nonqualified distribution prior to age 59 1/2, but you will be required to take minimum distributions if the participant was receiving required minimum distributions from his or her designated Roth account under the Plan prior to his or her death. If the participant was not receiving required minimum distributions from his or her designated Roth account under the Plan prior to his or her death, you will not have to start receiving required minimum distributions from the inherited Roth IRA until the year the participant would have been age 70 1/2.

*Non-spouse beneficiaries.* If you are receiving a distribution from a designated Roth account under the Plan due to a participant's death and you are not the participant's surviving spouse, the only rollover option you have is to roll over the distribution to an inherited Roth IRA. The 10% penalty tax will not apply to distributions from the inherited Roth IRA, even if they are not qualified distributions, but you will have to receive required minimum distributions from the Roth IRA.

#### **Distributions from designated Roth accounts to Alternate Payees under a QDRO.** If you are a QDRO Alternate Payee (as

described in Section C above), you generally have the same options for distributions you receive from a designated Roth account under the Plan that the participant would have.

**Other special rules.** The rules in Section B above relating to the treatment of periodic distributions and splitting a distribution/small distributions and the special rules described in Section D above generally apply to distributions from a designated Roth account under the Plan in the same manner as they apply to all other Plan distributions, except as follows:

- The determination of whether your payments from the Plan for the year are less than \$200 for purposes of determining whether the Plan must allow you to do a direct rollover from your designated Roth account is made looking solely at payments made from the designated Roth account.
- The dollar amounts applicable to distributions under the mandatory cashout rules are applied looking solely at distributions made from the designated Roth account.
- Mandatory cashouts from designated Roth accounts are made to Roth IRAs.