

# Special Tax Notice Regarding Plan Payments 457(b)

This notice explains how you can continue to defer federal income tax on your retirement savings and contains important information you will need before you decide how to receive your benefits from the Plan.

## Summary

There are two ways you may be able to receive a Plan payment that is eligible for a rollover: (1) certain payments can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit ("DIRECT ROLLOVER") or (2) The payment can be PAID TO YOU.

**If you choose a DIRECT ROLLOVER:** Your payment will not be taxed in the current year and no income tax will be withheld.

- You choose whether your payment will be made directly to your traditional or Roth IRA or, to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Coverdell Savings Account because it is not a traditional IRA.
- Your payment will be taxed later when you take it out of the traditional 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 choose to have a Plan payment that is eligible for rollover PAID TO YOU:**

- You will receive only 80% of the taxable amount of the payment, because the plan administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over.
- You can roll over all or part of the payment by paying it to your traditional or Roth IRA or to an eligible employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the traditional or Roth IRA or the eligible employer plan.
- If you want to roll over 100% of the payment to a traditional IRA or an eligible employer plan, you must find other money to replace the 20% of the taxable portion that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

**Your Right to Waive the 30-Day Notice Period.** Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal 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 withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan Administrator.

## ① Payments That Can and Cannot Be Rolled Over

Payments from the Plan may be "eligible rollover distributions." This means that they can be rolled over to a traditional or Roth IRA or to an eligible employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a SIMPLE IRA, or a Coverdell Savings Account. Your Plan administrator should be able to tell you whether your payment is an eligible rollover.

**Unforeseeable Emergency Contributions.** A distribution on account of an unforeseeable emergency cannot be rolled over.

**Distributions of Excess Contributions.** A distribution that is made because legal limits on certain contributions were exceeded cannot be rolled over.

The Plan Administrator of this Plan should be able to tell you if your payment includes amounts which cannot be rolled over.

## ② Direct Rollover

A DIRECT ROLLOVER is a direct payment of the amount of your Plan benefits to a traditional or Roth IRA or an eligible employer plan that will accept it. You can choose a DIRECT ROLLOVER of all or any portion of your payment that is an eligible rollover distribution, as described in Part I above. You are not taxed on any taxable portion of your Plan payment for which you choose a DIRECT ROLLOVER until you later take it out of the traditional or Roth IRA or the eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your Plan benefits for which you choose a DIRECT ROLLOVER. This Plan might not let you choose a DIRECT ROLLOVER if your distributions for the year are less than \$200.

**Direct Rollover to a Traditional or Roth IRA:** You can open a traditional or Roth IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional or Roth IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a traditional or Roth IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a traditional or Roth IRA to receive the payment. However, in choosing a traditional or Roth IRA, you may wish to make sure that the traditional or Roth IRA you choose will allow you to move all or a part of your payment to another traditional or Roth IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

**Direct Rollover to a Plan:** If you are employed by a new employer that has an eligible employer plan, and you want a direct rollover to that plan, ask the plan administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a DIRECT ROLLOVER to a traditional or Roth IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the plan administrator of that plan before making your decision.

**Change in Tax Treatment Resulting from a Direct Rollover:** The tax treatment of any payment from the eligible employer plan or traditional or Roth 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 1, 1936, you might be entitled to ten-year averaging or capital gain treatment, as explained below. However, if you have your benefit rolled over to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or a traditional or Roth IRA in a DIRECT ROLLOVER, your benefit will no longer be eligible for that special treatment.

## ③ Payment Paid To You

If your payment can be rolled over (see Part I above) and the payment is made to you in cash, it is subject to 20% federal income tax withholding on the taxable portion (state tax withholding may also apply). The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a traditional or Roth IRA or an eligible employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

## Income Tax Withholding:

- **Mandatory Withholding.** If any portion of your payment can be rolled over under Part I above and you do not elect to make a DIRECT ROLLOVER, the Plan is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable payment of \$10,000, only \$8,000 will be paid to you because the Plan must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, unless you rollover within 60 days (see "Sixty-Day Rollover Option" below), you must report the full \$10,000 as a payment from the Plan. You must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your payments for the year are less than \$200.
- **Voluntary Withholding.** If any portion of your payment is taxable but cannot be rolled over under Part I above, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan administrator for the election form and related information.
- **Sixty-Day Rollover Option.** If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to a traditional or Roth IRA or to an eligible employer plan that accepts rollovers. If you decide to roll over, you must contribute the amount of the payment you received to a traditional or Roth IRA or eligible employer plan 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 traditional or Roth IRA or the eligible employer plan.
- You can roll over up to 100% of your payment that can be rolled over under Part I above, including an amount equal to the 20% of the taxable portion that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the traditional or Roth IRA or the eligible employer plan to replace the 20% that was withheld. On the other hand, if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

*Example: The taxable portion of your payment that can be rolled over under Part I above is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to a traditional or Roth IRA or an eligible employer plan. To do this, you roll over the \$8,000 you received from the Plan, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000 is not taxed until you take it out of the traditional or Roth IRA or an eligible employer plan. If you roll over the entire \$10,000, when you file your income tax return you may get a refund of part or all of the \$2,000 withheld.*

*If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000.)*

**Additional 10% Tax May Apply to Certain Distributions.** Distributions from this Plan are generally not subject to the additional 10% tax that applies to pre-age 59 ½ distributions from other types of plans. However, any distribution from the Plan that is attributable to an amount you rolled over to the Plan (adjusted for investment returns) from another type of eligible employer plan or IRA amount is subject to the additional 10% tax if it is distributed to you before you reach age 59 ½, unless an exception applies.

Exceptions to the additional 10% tax generally include (1) payments that are paid from an eligible employer plan after you separate from service with your employer during or after the year you reach age 55, (2) payments that are paid because you retire due to disability, (3) payments that are paid to an alternate payee under a qualified domestic relations order or (4) payments that do not exceed the amount of your deductible medical expenses. These exceptions may be different for distribution from a

traditional IRA. See IRS Form 5329 for more information on the additional 10% tax.

The additional 10% tax does not apply to distributions from the Plan or any other governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to the governmental 457 plan (adjusted for investment returns) from another type of eligible employer plan or IRA.

In addition, any amount rolled over from the Plan to another type of eligible employer plan or to a traditional or Roth IRA will be subject to the additional 10% tax if it is distributed to you before you reach age 59 ½, unless one of the exceptions applies.

## ④ Surviving Spouses, Alternate Payees, and Other Beneficiaries

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees, to spouses or former spouses who are "alternate payees" and all other non-spousal beneficiaries. You are an alternate payee if your interest in the Plan results from a "qualified domestic relations order," which is an order issued by a court, usually in connection with a divorce or legal separation.

If you are a surviving spouse, you may choose to have a payment that can be rolled over, as described in Part I above, paid in a DIRECT ROLLOVER to a traditional or Roth IRA or to an eligible employer plan or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a traditional IRA or to an eligible employer plan. Thus, you have the same choices as the employee.

If you are a non-spousal beneficiary, you may choose to have a payment that can be rolled over. The distribution must be a direct trustee-to-trustee transfer to your IRA that was set up to receive the distribution. The transfer will be treated as an eligible rollover distribution and the receiving plan will be treated as an inherited IRA.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is generally not subject to the additional 10% tax described in Part III above, even if you are younger than age 59 ½.

If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump sum distributions as described in Part III above. If you receive a payment because of the employee's death, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had 5 years of participation in the Plan.

## How to Obtain Additional Information

*This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. 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 your Plan. Also, you can find more specific information on the tax treatment of payments from qualified employer 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, on the IRS' Internet Web Site at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORMS.*