SUMMARY OF FEDERAL INCOME TAX RULES
RELATING TO DISTRIBUTIONS FROM QUALIFIED RETIREMENT PLANS

BASED ON SAFE HARBOR NOTICE PER IRS NOTICE 2014-74

(Rev. November 2014)

SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

The following summary is required to be furnished to you by law. It is based on a notice originally prepared by the Internal Revenue Service and then updated for subsequent law changes, and summarizes various rules governing the federal taxation of distributions from all types of retirement plans, not just your plan. Consequently, the summary is extremely broad and may describe various matters that are not applicable to your plan or to your particular distribution.

YOU ARE STRONGLY URGED TO CONSULT WITH A QUALIFIED PROFESSIONAL BEFORE MAKING DECISIONS ABOUT YOUR BENEFITS UNDER YOUR PLAN.

Rules that apply to most distributions from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

Some 401(k) plans permit employees to make their 401(k) contributions to what is called a "designated Roth account." If your plan offers this feature and you have elected to contribute to a designated Roth account, this notice describes some special rules that apply to distributions from your designated Roth account. If your plan does not offer this feature, or if you elected not to contribute to this account, those rules will not apply to you.

GENERAL INFORMATION ABOUT ROLLOVERS

Q. How can a rollover affect my taxes?

A. You will be taxed on a payment from your plan if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you attain age 59½ (or if an exception applies).

If payment is from a <u>Roth Account</u>, please read the remaining answer:

After-tax contributions included in a payment from a designated Roth account are not taxed, but earnings might be taxed. The tax treatment of earnings included in the payment depends on whether the payment is a qualified distribution. 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.

If the payment from your plan is not a qualified distribution and you do not do a rollover to a Roth IRA or a designated Roth account in an employer plan, you will be taxed on the earnings in the payment. If you are under age 59½, a 10% additional income tax on early distributions will also apply to the earnings (unless an exception applies). However, if you do a rollover, you will not have to pay taxes currently on the earnings and you will not have to pay taxes later on payments that are qualified distributions.

If the payment from your plan is a qualified distribution, you will not be taxed on any part of the payment even if you do not do a rollover. If you do a rollover, you will not be taxed on the amount you roll over and any earnings on the amount you roll over will not be taxed if paid later in a qualified distribution.

A qualified distribution from a designated Roth account in your plan is a payment made after you attain age 59½ (or after your death or disability) and after you have had a designated Roth account in your 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 your 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 your plan or, if earlier, to the designated Roth account in the other employer plan.

Q. Where may I roll over the payment?

A. You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

If payment is from a <u>Roth Account</u>, please read the remaining answer:

You may roll over the payment to either a Roth IRA (a Roth individual retirement account or Roth individual retirement annuity) or a designated Roth account in an employer plan (a tax-qualified plan or section 403(b) plan) that will accept the rollover. The rules of the Roth IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the Roth IRA or employer plan. 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 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.
- 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.

Q. How do I do a rollover?

A. There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

If you do a direct rollover, your plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, your plan is required to withhold 20% of the payment for federal income taxes. This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

If payment is from a <u>Roth Account</u>, please read the remaining answer:

If you do a direct rollover, your plan will make the payment directly to your Roth IRA or designated Roth account in an employer plan.

If you do not do a direct rollover, you may still do a rollover by making a deposit within 60 days into a Roth IRA, whether the payment is a qualified or nonqualified distribution. In addition, you can do a rollover by making a deposit within 60 days into a designated Roth account in an employer plan if the payment is a nonqualified distribution and the rollover does not exceed the amount of the earnings in the payment. You cannot do a 60-day rollover to an employer plan of any part of a qualified distribution. If you receive a distribution that is a nonqualified distribution and you do not roll over an amount at least equal to the earnings allocable to the distribution, you will be taxed on the amount of those earnings not rolled over, including the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

If you do a direct rollover of only a portion of the amount paid from your plan and a portion is paid to you at the same time, the portion directly rolled over consists first of earnings.

If you do not do a direct rollover and the payment is not a qualified distribution, your plan is required to withhold 20% of the earnings for federal income taxes (up to the amount of cash and property received other than employer stock). This means that, in order to roll over the entire payment in a 60-day rollover to a Roth IRA, you must use other funds to make up for the 20% withheld.

Q. How much may I roll over?

A. If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from your plan is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary).
- Required minimum distributions after age 70½ (or after death).
- Hardship distributions.
- ESOP dividends.
- Corrective distributions of contributions that exceed tax law limitations.
- Loans treated as deemed distributions (for example, loans in default due to missed payments before your employment ends).
- Cost of life insurance paid by your plan.
- Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.
- Amounts treated as distributed because of a prohibited allocation of S corporation stock under an ESOP (also, there will generally be adverse tax consequences if you roll over a distribution of S corporation stock to an IRA).

For information regarding what portion of your payment is eligible for rollover, please consult your plan contact who is identified in your Summary Plan Description (SPD).

Q. If I do not do a rollover, will I have to pay the 10% additional income tax on early distributions?

A. If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from your plan (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 your plan:

- Payments made after you separate from service if you will be at least age 55 in the year of the 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 made due to disability.
- Payments after your death.
- Payments of ESOP dividends.
- Corrective distributions of contributions that exceed tax law limitations.
- Cost of life insurance paid by your plan.
- Payments made directly to the government to satisfy a federal tax levy.
- Payments made under a qualified domestic relations order (QDRO).
- Payments up to the amount of your deductible medical expenses.

- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days.

- Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.

If payment is from a Roth Account, please read the remaining answer:

If a payment is not a qualified distribution and you are under age 59½, you will have to pay the 10% additional income tax on early distributions with respect to the earnings allocated to the payment that you do not roll over (including amounts withheld for income tax), unless one of the above-listed exceptions applies.

Q. If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

A. If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from your plan. However, there are a few differences for payments from an IRA, including:

- There is no exception for payments after separation from service that are made after age 55.

- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse).

- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.

- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to $10,000 used in a qualified first-time home purchase, and (3) payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

If payment is from a Roth IRA, please read the remaining answer:

If you receive a payment from a Roth IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions on the earnings paid from the Roth IRA, unless one of the above-listed exceptions apply or the payment is a qualified distribution.

Q. Will I owe State income taxes?

A. This notice does not describe any state or local income tax rules (including withholding rules).

SPECIAL RULES AND OPTIONS

Q. What if your payment includes after-tax contributions?

A. 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. In addition, special rules apply when you do a rollover, as described below.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). 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 to two or more destinations at the same time, you can choose which destination receives the after-tax contributions.

If you do a 60-day rollover 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 a 60-day rollover, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) 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.

Q. What if you miss the 60-day rollover deadline?

A. 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 prevented 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, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

Q. What if your payment includes employer stock that you do not roll over?

A. If you do not do a rollover, you can apply a special rule to payments of employer stock (or other employer securities) that are either attributable to after-tax contributions or paid in a lump sum after separation from service (or after age 59½, disability, or the participant's death). Under the special rule, the net unrealized appreciation on the stock will not be taxed when distributed from your plan and will be taxed at capital gain rates when you sell the stock. Net unrealized appreciation is generally the increase in the value of employer stock after it was acquired by your plan. If you do a rollover for a payment that includes employer stock (for example, by selling the stock and rolling over the proceeds within 60 days of the payment), the special rule relating to the distributed employer stock will not apply to any subsequent payments from the IRA or employer plan. Your plan contact identified in your SPD can tell you the amount of any net unrealized appreciation.

If payment is from a Roth Account, please read the remaining answer:

If you receive a payment that is not a qualified distribution and you do not roll it over, you can apply a special rule to payments of employer stock (or other employer securities) that are paid in a lump sum after separation from service (or after age 59½, disability, or the participant's death). Under the special rule, the net unrealized appreciation on the stock included in the earnings in the payment will not be taxed when distributed to you from your plan and will be taxed at capital gain rates when you sell the stock. If you do a rollover to a Roth IRA for a nonqualified distribution that includes employer stock (for example, by selling the stock and rolling over the proceeds within 60 days of the distribution), you will not have any taxable income and the special rule relating to the distributed employer stock will not apply to any subsequent payments from the Roth IRA or employer plan. Net unrealized appreciation is generally the increase in the value of the employer stock after it was acquired by your plan. Your plan contact identified in your SPD can tell you the amount of any net unrealized appreciation.

If you receive a payment that is a qualified distribution that includes employer stock and you do not roll it over, your basis in the stock (used to determine gain or loss when you later sell the stock) will equal the fair market value of the stock at the time of the payment from your plan.

Q. What if you have an outstanding loan that is being offset?

A. If you have an outstanding loan from your plan, your plan benefit may be offset by the amount of the loan, typically when your employment ends. The loan offset amount is treated as a distribution to you at the time of the offset and will be taxed (including the 10% additional income tax on early distributions, unless an exception applies) unless you do a 60-day rollover in the amount of the loan offset to an IRA or employer plan.

If payment is from a Roth Account, please read the remaining answer:

The loan offset amount is treated as a distribution to you at the time of the offset and, if the distribution is a nonqualified distribution, the earnings in the loan offset will be taxed (including the 10% additional income tax on early distributions, unless an exception applies) unless you do a 60-day rollover in the amount of the earnings in the loan offset to a Roth IRA or designated Roth account in an employer plan.

Q. What if you were born on or before January 1, 1936?

A. If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

If payment is from a Roth Account, please read the remaining answer:
If you were born on or before January 1, 1936, and receive a lump sum distribution that is not a qualified distribution and that you do not roll over, special rules for calculating the amount of the tax on the earnings in the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

Q. What if you roll over your payment from a non-Roth account to a Roth IRA?

A. If you roll over a payment from your plan to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions 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 59½ (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% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

Q. Can I make a rollover to a designated Roth account in my plan?

A. Not all plans permit participants to make a rollover to a designated Roth account in their plan. You need to verify with your employer whether your plan allows this. If your plan does, the remaining information applies to you.

You cannot roll over a distribution to a designated Roth account in another employer's plan. However, you can roll the distribution over into a designated Roth account in the distributing Plan. If you roll over a payment from your plan to a designated Roth account in your plan, the amount of the payment rolled over (reduced by any after-tax amounts directly rolled over) will be taxed. However, the10% additional tax on early distributions 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 the payment to a designated Roth account in your 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 59 ½ (or after your death or disability) and after you have had a designated Roth account in your 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 your 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 your 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% additional income tax on early distributions (unless an exception applies).

Q. What if you are not a plan participant?

A. **Payments after death of the participant**. If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions does not apply, and the special rule described under the section "If you were born on or before January 1, 1936" does not apply unless the participant was born on or before January 1, 1936.

-- **If you are a surviving spouse.** If you receive a payment as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½.

-- **If you are a surviving beneficiary other than a spouse**. If you receive a payment because of the participant's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a payment under a qualified domestic relations order (QDRO), you generally have the same options the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). Payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

If payment is from a <u>Roth Account</u>, please read the remaining answer:

Payments from a Roth account after the death of the participant generally have the same rules as stated elsewhere in this notice and as do non-Roth payments. However, whether the payment is a qualified distribution generally depends on when the participant first made a contribution to the designated Roth account.

If you are surviving spouse receiving payment from a Roth IRA, you have the same rollover options that the participant would have had and if you choose to do a rollover you may treat the Roth IRA as your own or as an inherited Roth IRA.

If you treat the Roth IRA as an inherited Roth IRA, an inherited Roth IRA is subject to required minimum distributions.

If you are a surviving beneficiary other than a spouse, payments from the inherited Roth IRA, even if made in a nonqualified distribution, will not be subject to the 10% additional income tax on early distributions.
If you are receiving a payment from a Roth account under a qualified domestic relations order (QDRO), you generally have the same options as the participant.

Q. What if you are a nonresident alien?

A. If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, your 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 also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Q. What if you are receiving installment payments?

A. If a payment is one in a series of payments for less than 10 years, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than $200 (from either your non-Roth account or Roth account counted separately), your plan is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover.

Q. What rules apply to automatic cashouts?

A. An automatic cashout is an involuntary distribution of your vested benefit following your termination of employment, which is made to you before age 62 (or normal retirement age, if later).

Your plan will have an automatic cashout threshold of either $1,000 or $5,000; your SPD will tell you which threshold applies to your plan. The threshold means that you can be automatically cashed out if your vested benefit is less than $1,000 or less than $5,000 (ignoring rollovers), depending on which threshold amount applies to your plan.

If you are in a $1,000 threshold plan, your plan will pay the automatic cashout to you in cash. If you are in a $5,000 threshold plan and your benefit exceeds $1,000 (ignoring rollovers), your plan cannot pay the automatic cashout to you in cash; your benefit must instead be directly rolled over to an IRA chosen by your plan, unless you elect otherwise.

Non-Roth and Roth account balances are considered separately in arriving at the threshold amounts and the same cashout rules apply to each separate account.

Q. What if you recently served in the U.S. Armed Forces?

A. You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

Q. What if you transfer a non-Roth account into an in-plan Roth account?

A. If you transfer a non-Roth account into an in-plan Roth account, the amount transferred will be taxed. However, the 10% additional tax on early distributions will not apply (unless you take the amount transferred out of the in-plan Roth account within the 5-year period described earlier in this notice). There will be no income taxes withheld from any of your accounts in the plan as a result of this transfer.

Subsequent payments from an in-plan Roth account are treated in the same manner as any other payment from a Roth account as described earlier in this notice.

You are strongly urged to consult with a qualified tax advisor before electing to make a transfer to an in-plan Roth account.

FOR MORE INFORMATION

You are strongly urged to consult with a professional tax advisor before taking a payment from your plan, as your employer will not be able to offer you financial or tax advice. You can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590, Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.