

# 401(k) Distribution

## Documents Required Prior to Distribution Funding

Taking money out of a 401(k) is referred to as a distribution.

See below for more information on Midland's requirements for taking a distribution from your account.

## To be supplied by client to Midland:

- **Distribution Form** — Completed & signed by client
- **Account Information** — All information must be completed in order to process
- **Distribution Type & Manner**
- **Federal Income Tax Withholding Election** — If elected, federal withholding must be 10% or greater; Midland does not withhold state taxes
- **Funding Instructions** — Wire - \$30 fee, Check/ACH - \$5 fee (ACH may take up to three business days)
- **Consent of Spouse (if married)** — Notary required
- **Signature and Acknowledgement**

## Common Questions about 401(k) Distributions:

### Q: How does Midland report distributions to the IRS?

A: Midland reports distributions to the IRS annually on Form 1099-R. Clients who have taken distribution(s) throughout the year will receive IRS Form 1099-R in the mail at the end of January.

### Q: What is the penalty for taking an early distribution?

A: Distributions taken from traditional IRAs prior to age 59 ½ are subject to a 10% penalty, in addition to applicable federal and state taxes. There are exceptions to this rule (first-time home purchase, qualified education expense for you or your dependents, death or disability, unreimbursed medical expenses, or health insurance, if you are unemployed). Also, if distributions are taken from a SIMPLE IRA within the first two years, the penalty is 25%.

Midland does not determine whether or not distributions are eligible for an exception and processes all distributions prior to age 59 ½ as early. If one of the above mentioned exceptions applies, then you may need to file IRS Form 5329 with your taxes. Please see the instructions on IRS Form 5329 and talk to your tax advisor.

### Q: Do I have to elect federal tax withholding?

A: No. If you elect for federal tax withholding, you are essentially prepaying taxes that you may owe for this distribution. If you would prefer to settle any tax obligations at tax time, you can elect out of tax withholding by selecting the first option, "I elect NOT to have federal income tax withheld."



**1 ACCOUNT INFORMATION**

Name <input type="checkbox"/> Mr. <input type="checkbox"/> Ms. <input type="checkbox"/> Mrs. <input type="checkbox"/> Dr. _____		Midland Account Number	
Type of Account	Social Security Number	Phone Number	
Home Address		City, State, Zip	
Is this a distribution due to death? <input type="checkbox"/> NO - Skip this section <input type="checkbox"/> YES - Please complete the following			
Beneficiary Name	Beneficiary SSN	Beneficiary Date of Birth	Beneficiary Phone Number
Beneficiary Home Address		Beneficiary City, State, Zip	

**2 DISTRIBUTION TYPE & MANNER**

<b>Reason for Distribution</b> <input type="checkbox"/> Premature (under age 59 1/2) <input type="checkbox"/> Normal (overage 59 1/2) <input type="checkbox"/> In-service Distribution (profit-sharing plan assets only) <input type="checkbox"/> Plan Termination <input type="checkbox"/> Other: Describe: _____	<input type="checkbox"/> <b>Full Distribution</b> (Close Account) <input type="checkbox"/> <b>Partial Distribution</b> (Only distribute cash/assets as described below) <input type="checkbox"/> Cash Only: Amount \$ _____ <input type="checkbox"/> In-Kind*: Asset(s) to be distributed: _____  <b>Would you like to set up a scheduled recurring distribution**</b> <input type="checkbox"/> No <input type="checkbox"/> Yes (Select recurrence below) ▶ <input type="checkbox"/> Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Semi-Annually <input type="checkbox"/> Annually ▶ Date Payments to Commence: _____
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**3 FEDERAL INCOME TAX WITHHOLDING SELECTION**

**PLEASE DO NOT COMPLETE THIS SECTION IF TRANSFERRING OR DIRECTLY ROLLING OVER ASSETS.**

**SECTION 1-VOLUNTARY WITHHOLDING**  
 This section applies if the distribution is not an "eligible rollover distribution" as described in §402(c) of the Internal Revenue Code. (Check one of the following boxes.)

I do not want to have Federal income tax withheld from my payment(s), and I acknowledge receipt of the Notice of Withholding.  
 I want to have Federal income tax withheld from my payments

The amount will be calculated in the manner described in the Notice of Withholding I received from Midland IRA; or  
 withhold \_\_\_\_\_ % (Cannot be less than 20%); or  
 \$ \_\_\_\_\_

*NOTE: Even if you elect not to have federal income tax withheld you are liable for payment of federal income tax on the taxable portion of your distribution or withdrawal. You may also be subject to tax penalties under the estimated tax payment rules if your payments of estimated tax and withholding, if any, are not adequate.*

**SECTION II - MANDATORY WITHHOLDING**  
 This section applies if the distribution is an "eligible rollover distribution" as described in §402(c) of the Internal Revenue Code.  
 a) I understand I will receive only 80% of the payment requested above, since the Plan Administrator is required to withhold 20% of the distribution and send it to the IRS as income tax withholding to be credited against my taxes.

\*A Current Fair Market Value must be provided to distribute assets in-kind  
 \*\*This recurring distribution will remain in effect until you provide a written request to cancel or change

Signature: \_\_\_\_\_ Date: \_\_\_\_\_



# Distribution Form for Participant of Qualified Retirement Plan

## 4 FUNDING INSTRUCTIONS Please send the funds for purchase via: WIRE CHECK DIRECT DEPOSIT

<b>For WIRE or DIRECT DEPOSIT</b> - Please complete the info below After Midland IRA processes this request, Direct Deposits take 2-3 days to credit to your account Wire Transfers take 1 day to credit to your account (\$30 fee)		<b>For CHECK</b> - Please complete the info below Allow 5-10 days for check to clear if sent by regular mail Void after 90 days
<b>Bank Name</b>		<b>Make Check Payable To</b>
<b>Account Holder Name</b>		<b>Mail Check To</b>
<b>ABA Routing Number</b>	<b>Account Number</b>	<b>Address</b>
<b>For Credit To</b>		<b>City, State, Zip</b>
		<b>Send Check via:</b> <input type="checkbox"/> Regular Mail <input type="checkbox"/> Overnight Mail (\$30) <input type="checkbox"/> Cashier's Check (\$30 + Overnight Fee) <input type="checkbox"/> Hold for pick-up

## 5 SIGNATURE AND ACKNOWLEDGEMENT

**Notice of Withholding**  
 The distributions you receive from your individual qualified account established at this institution are subject to federal income tax withholding unless you elect not to have withholding apply. You may elect not to have withholding apply to your distribution payments by completing the "Withholding Election" section above. If you do not complete the "Withholding Election" section by the date your distribution is scheduled to begin, federal income tax will be withheld from the amount withdrawn at a rate of 10%. If you elect not to have withholding apply to your distribution payments, or if you do not have enough federal income tax withheld from your distribution, you may be responsible for payment of estimated tax. You may incur penalties under the estimated tax rules if your withholding and estimated tax payments are not sufficient.

I certify that I am the proper party to receive payment(s) from this Qualified Plan, and that all information provided by me is true and accurate. I acknowledge that I have read the Notice of Withholding and have completed the Withholding Election above. I further certify that no tax advice has been given to me by the Administrator Custodian, and that distributions are reported to the IRS, and that all decisions regarding this withdrawal are my own. I expressly assume the responsibility for any adverse consequences which may arise from this withdrawal and I agree that the Administrator or Custodian shall in no way be responsible for those consequences.

**Participant's or Beneficiary's Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

## 6 CONSENT OF SPOUSE

I, the undersigned spouse of the participant, have read the Participant's Request for Distribution, and hereby consent to distribution of my spouse's benefits under the Plan in the form requested. I have signed this consent freely and voluntarily.

**Signature of Spouse:** \_\_\_\_\_ **Date:** \_\_\_\_\_

BEFORE ME, the undersigned Notary Public, personally appeared \_\_\_\_\_ and executed the above Consent of Spouse.

IN WITNESS WHEREOF, I have signed my name and affixed my official seal of office on:

**Signature of Notary:** \_\_\_\_\_

**Notary Public - State of:** \_\_\_\_\_

**My commission expires:** \_\_\_\_\_

## Rollover Explanation for Qualified Plans and 403(b)s

### Special Tax Notice Regarding Plan Payments - Please Retain this Information for Your Records

This notice explains how you can continue to defer federal income tax on your retirement savings in your Employer's Plan (the "Plan") and contains important information you will need before you decide how to receive your Plan benefits.

This notice is provided to you by your employer (your "Plan Administrator") because all or part of the payment that you will soon receive from the Plan may be eligible for rollover by you or your Plan Administrator to a traditional IRA or an eligible employer plan. 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. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). An "eligible employer plan" includes a plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; a section 403(b)(7) custodial account; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan).

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. You should also find out about any documents that are required to be completed before the receiving plan will accept 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 your distribution over to a traditional IRA or split your rollover amount between the employer plan in which you will participate and a traditional 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 prior to making the rollover.

### Summary

There are two ways you may be able to receive a Plan payment that is eligible for 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 IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The taxable portion of 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. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59 1/2, you may have to pay an additional 10% tax.
- You can roll over all or part of the payment by paying it to your traditional 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 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.

## Rollover Explanation for Qualified Plans and 403(b)s

### 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.

### SECTION I - 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 IRA or to an eligible employer plan that accepts roll overs. Payments from a plan cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account. Your Plan administrator should be able to tell you what portion of your payment is an eligible rollover distribution.

#### After-Tax Contributions

If you made after-tax contributions to the Plan, these contributions may be rolled into either a traditional IRA or to certain employer plans that accept roll overs of the after-tax contributions. The following rules apply:

a) Rollover into a Traditional IRA. You can roll over your after-tax contributions to a traditional IRA either directly or indirectly. Your plan administrator should be able to tell you 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 a traditional IRA, it is your responsibility to keep track of and report to, the Service on the applicable forms and the amount of these after-tax contributions. This will enable the nontaxable amount of any future distributions from the traditional IRA to be determined. Once you roll over your after-tax contributions to a traditional IRA, those amounts CANNOT later be rolled over to an employer plan.

b) Rollover into an Employer Plan. You can roll over after-tax contributions from an employer plan that is qualified under Code section 401(a) or a section 403(a) annuity plan to another such plan using a direct rollover if the other plan provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You can also roll over after-tax contributions from a section 403(b) tax-sheltered annuity to another section 403(b) tax-sheltered annuity using a direct rollover if the other tax-sheltered annuity provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. Beginning with direct rollovers made after 12/31/06 you may directly roll after-tax monies from a qualified plan under 401(a) to a 403(b) or vice versa. You CANNOT roll over after-tax contributions 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 of this Plan to make a direct rollover on your behalf. Also, you cannot first roll over after-tax contributions to a traditional IRA and then roll over that amount into an employer plan.

**The following types of payments cannot be rolled over:**

#### Payments Spread Over Long Periods

You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- Your lifetime (or a period measured by your life expectancy), or
- Your lifetime and your beneficiary's lifetime (or a period measured by your joint life expectancies), or
- A period of 10 years or more.

#### Required Minimum Payments

Beginning when you reach age 70 1/2 or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you. Special rules apply if you own more than 5% of your employer.

## Rollover Explanation for Qualified Plans and 403(b)s

### **Hardship Distributions**

A hardship distribution cannot be rolled over.

### **ESOP Dividends**

Cash dividends paid to you on employer stock held in an employee stock ownership plan cannot be rolled over.

### **Corrective Distributions**

A distribution that is made to correct a failed nondiscrimination test, or because legal limits on certain contributions were exceeded, cannot be rolled over.

### **Loans Treated as Distributions**

The amount of a plan loan that becomes a taxable deemed distribution because of a default cannot be rolled over. However, a loan offset amount is eligible for rollover, as discussed in Section III below. Ask the Plan Administrator of this Plan if distribution of your loan qualifies for rollover treatment.

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

## **SECTION II - DIRECT ROLLOVER**

A DIRECT ROLLOVER is a direct payment of the amount of your Plan benefits to a traditional 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 Section I above. You are not taxed on any taxable portion of your payment for which you choose a DIRECT ROLLOVER until you later take it out of the traditional IRA or 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 IRA**

You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional 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 IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the payment. However, in choosing a traditional IRA, you may wish to make sure that the traditional IRA you choose will allow you to move all or a part of your payment to another traditional 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 Roth IRA**

If your Employer's Plan permits Roth Elective Deferrals, when you have a distributable event under the Plan, you may either receive the balance in your Roth Elective Deferral Account (taxation will be pro-rata) or you may directly roll over the balance to another employer Plan that will accept these monies or directly roll over into a Roth IRA. Since the distribution rules are complex, you should consult with a tax advisor prior to receiving a distribution from your Roth Elective Deferral account.

### **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 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.

## Rollover Explanation for Qualified Plans and 403(b)s

### **DIRECT ROLLOVER of a Series of Payment**

If you receive a payment that can be rolled over to a traditional IRA or an eligible employer plan that will accept it, and it is paid in a series of payments for less than 10 years, your choice to make or not make a DIRECT ROLLOVER for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

### **Change in Tax Treatment Resulting from a DIRECT ROLLOVER**

The tax treatment of any payment from the eligible employer plan or traditional IRA receiving your DIRECT ROLLOVER might be different than if you received your benefit in a taxable distribution directly from this 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 IRA in a DIRECT ROLLOVER, your benefit will no longer be eligible for that special treatment. See the sections below entitled "Additional 10% Tax if You Are under Age 59 1/2 " and "Special Tax Treatment if You Were Born before January 1, 1936."

### **SECTION III - PAYMENT PAID TO YOU**

If your payment can be rolled over (see Section 1 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 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 Section 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 make a rollover within 60 days (see "Sixty-Day Rollover Option" below), you must report the full \$10,000 as a taxable 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 Section 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, a portion of your payment will be withheld 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 Section I above, you can still decide to roll over all or part of it to a traditional 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 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 IRA or the eligible employer plan.

You can roll over up to 100% of your payment that can be rolled over under Section 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 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 Section 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 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 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.

## Rollover Explanation for Qualified Plans and 403(b)s

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 If You Are under Age 59 1/2.** If you receive a payment before you reach age 59 1/2 and you do not roll it over, then, in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax generally does not apply to (1) payments that are paid 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 as defined under section 72(m)(7) IRC, (3) payments that are paid after you separate from service with your employer as equal (or almost equal) payments over your life expectancy (or your and your beneficiary's lives or life expectancies), (4) dividends paid with respect to stock by an employee stock ownership plan (ESOP) as described in Code section 404(k), (5) payments that are paid directly to the government to satisfy a federal tax levy, (6) payments that are paid to an alternate payee under a qualified domestic relations order, or (7) payments that do not exceed the amount of your deductible medical expenses. See IRS Form 5329 for more information on the additional 10% tax.

The additional 10% tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) 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. The exceptions to the additional 10% tax that apply to distributions from IRAs are different than those listed above.

**Special Tax Treatment If You Were Born before January 1, 1936.** If you receive a payment from a plan qualified under section 401(a) or a section 403(a) annuity plan that can be rolled over under Section I and you do not roll it over to a traditional IRA or an eligible employer plan, the payment will be taxed in the year you receive it. However, if the payment qualifies as a "lump sum distribution," it may be eligible for special tax treatment. (See also "Employer Stock or Securities", below.) A lump sum distribution is a payment, within one year, of your entire balance under the Plan (and certain other similar plans of the employer) that is payable to you after you have reached age 59 1/2 or because you have separated from service with your employer (or, in the case of a self-employed individual, after you have reached age 59 1/2 or have become disabled). For a payment to be treated as a lump sum distribution, you must have been a participant in the plan for at least five years before the year in which you received the distribution. The special tax treatment for lump sum distributions that may be available to you is described below.

**Ten-Year Averaging-** If you receive a lump sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates). Ten-year averaging often reduces the tax you owe.

**Capital Gain Treatment-** If you receive a lump sum distribution and you were born before January 1, 1936, and you were a participant in the Plan before 1974, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the Plan taxed as long-term capital gain at a rate of 20%.

There are other limits on the special tax treatment for lump sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump sum distributions that you receive in that same year. You may not elect this special tax treatment if you rolled amounts into this Plan from a 403(b) tax-sheltered annuity contract or from an IRA not originally attributable to a qualified employer plan. If you have previously rolled over a distribution from this Plan, or certain other similar plans of the employer, you cannot use this special averaging treatment for later payments from the Plan. If you roll over your payment to a traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, you will not be able to use special tax treatment for later payments from that IRA, plan, or annuity. Also, if you roll over only a portion of your payment to a traditional IRA, governmental 457 plan, or 403(b) Tax-sheltered annuity, this special tax treatment is not available for the rest of the payment. See IRS Form 4972 for additional information on lump sum distributions and how you elect the special tax treatment.

**Employer Stock or Securities-** There is a special rule for a payment from the Plan that includes employer stock (or other employer securities). To use this special rule, 1) the payment must qualify as a lump sum distribution, as described above, except that you do not need five years of plan participation, or 2) the employer stock included in the payment must be attributable to "after-tax" employee contributions, if any. Under this special rule, you may have the option of not paying tax on the "net unrealized appreciation" of the stock until you sell the stock. Net unrealized appreciation generally is the increase in the value of the employer stock while it was held by the Plan. For example, if employer stock was contributed to your Plan account when the stock was worth \$1,000 but the stock was worth \$1,200 when you received it, you would not have to pay tax on the \$200 increase in value until you later sold the stock.



## **Rollover Explanation for Qualified Plans and 403(b)**

You may instead elect not to have the special rule apply to the net unrealized appreciation. In this case, your net unrealized appreciation will be taxed in the year you receive the stock, unless you roll over the stock. The stock can be rolled over to a traditional IRA or another eligible employer plan, either in a direct rollover or a rollover that you make yourself. Generally, you will no longer be able to use the special rule for net unrealized appreciation if you roll the stock over to a traditional IRA or another eligible employer plan.

If you receive only employer stock in a payment that can be rolled over, no amount will be withheld from the payment. If you receive cash or property other than employer stock, as well as employer stock, in a payment that can be rolled over, the 20% withholding amount will be based 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 be limited to the cash or property (excluding employer stock) paid to you. If you receive employer stock in a payment that qualifies as a lump sum distribution, the special tax treatment for lump sum distributions described above (such as 10-year averaging) also may apply. See IRS Form 4972 for additional information on these rules.

**Repayment of Plan Loans-** If your employment ends and you have an outstanding loan from your Plan, your employer may reduce (or "offset") your balance in the Plan by the amount of the loan you have not repaid. The amount of your loan offset is treated as a distribution to you at the time of the offset and will be taxed unless you roll over an amount equal to the amount of your loan offset to another qualified employer plan or a traditional IRA within 60 days of the date of the offset. If the amount of your loan offset is the only amount you receive or are treated as having received, no amount will be withheld from it. If you receive other payments of cash or property from the Plan, the 20% withholding amount will be based on the entire amount paid to you, including the amount of the loan offset. The amount withheld will be limited to the amount of other cash or property paid to you (other than any employer securities). The amount of a defaulted plan loan that is a taxable deemed distribution cannot be rolled over.

### **SECTION IV - 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 and to spouses or former spouses who are "alternate payees." 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 or an alternate payee, you may choose to have a payment that can be rolled over, as described in Section I above, paid in a DIRECT ROLLOVER to a traditional 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 beneficiary other than a surviving spouse or an alternate payee other than a spouse or former spouse, you cannot choose a direct rollover to your own IRA, and you cannot roll over the payment yourself.

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 Section III above, even if you are younger than age 59 ½. Beginning with distributions made to non-spouse beneficiaries after 12/31/06, if the employer permits, such non-spouse may elect a direct rollover to an "inherited IRA". Required minimum distributions made from the IRA will generally be based on the required minimum distribution provisions in the employer's plan.

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 and the special rule for payments that include employer stock, as described in Section 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.

### **SECTION V - 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 the Plan Administrator or 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 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's Internet Web Site at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORMS.