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MyFRS TERMINATION KIT

Florida Retirement System
Investment Plan Special Tax Notice
and Distribution Options



Read this booklet for information that can shape your financial future for the better

You may never have a better opportunity to accumulate a retirement nest egg than you did while working for an FRS employer. So, be sure to carefully consider all your options while your account value is intact. Contact an Ernst & Young financial planner today for free, unbiased financial guidance.

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Get Free Help Before You Decide!

Even if you've already made plans for your money, please review your options with an unbiased financial planner. That conversation could save you money. Before deciding what to do with your Investment Plan account balance:

**CALL the MyFRS Financial Guidance Line
toll-free at**

**1-866-446-9377 (TTY 1-888-429-2160)
and VISIT MyFRS.com**

This publication is a summary of the Investment Plan termination options available to FRS employees, written in non-technical terms. It is not intended to include every program detail. Complete details can be found in Chapter 121, Florida Statutes, the rules of the State Board of Administration of Florida in Title 19, Florida Administrative Code, and the Investment Plan Summary Plan Description. In case of a conflict between the information in this publication and the statutes and rules, the provisions of the statutes and rules will control.

The examples used in this document may differ from your personal financial situation depending on factors such as your tax filing status, actual investment return, and account balance.

You Have an Important Decision to Make

Now that your FRS employment has ended, you have some choices to make with respect to your Investment Plan account. Your decision will impact your financial future during retirement. Reading this booklet will help you determine the path that is right for you. This booklet describes:

- your options
- potential tax considerations if taking a distribution
- things to think about before making your decision
- resources should you have any questions.

Read this booklet carefully before making your decision. If you have any questions:

Visit MyFRS.com and Call 1-866-446-9377, Option 1

Renewed Membership

If you take a distribution and later return to FRS-covered employment **prior to** July 1, 2010, you will be eligible for future membership in the FRS; however, you will not be eligible for:

- Special Risk Class membership
- Disability benefits
- Participation in the Deferred Retirement Option Program (DROP)

If you return to FRS-covered employment **on or after** July 1, 2010, you will not be eligible for future membership in the FRS.

Requirements for Taking a Distribution

If you take a distribution (including a rollover) from your Investment Plan account, you will be considered “retired” under the FRS. Under Florida law, the following requirements must be met before you can receive a distribution from the FRS Investment Plan:

- 1) You must be vested in the Investment Plan (have 1 year of FRS service). Any benefit you transfer from the Pension Plan to the Investment Plan vests after 6 years of FRS service¹;
- 2) You are required to terminate your FRS covered employment and be off all FRS-covered payrolls for 3 full calendar months;
- 3) You must not be in a continuing relationship with any FRS employer;
- 4) You cannot be actively employed by any FRS employer in **any** capacity (including OPS, temporary employment, etc.) at the time of the distribution; and
- 5) You must not have any intention of returning to work for an FRS employer following a distribution.

A distribution can be requested once you have been off all FRS-covered payrolls for 3 full calendar months, unless you meet the normal retirement requirements of the FRS Pension Plan,² in which case you may receive a one-time distribution of up to 10% of your account balance after 1 calendar month, and the remainder after 3 months.

Not Achieved Normal Retirement Example: If you terminate employment on January 15th and have not met the normal retirement requirements, you must be off FRS-covered payrolls during the months of February, March, and April. Then, on May 1st or later, you may contact the FRS Investment Plan Administrator to request a distribution from your account.

Achieved Normal Retirement Example: If you terminate employment on January 15th and have met the normal retirement requirements, you are eligible to receive a one-time distribution of up to 10% of your account balance on March 1st and the remaining balance on May 1st or later.

¹ If you are not fully vested in your account balance and do NOT take a distribution from your Investment Plan account, the unvested portion will be moved to a suspense account. If you return to work within 5 years from the date of termination, the unvested portion of your account will be reinstated plus earnings. If you, at any time, take a distribution from your vested account balance in the Pension Plan or Investment Plan, then the unvested balance in the suspense account will be permanently forfeited.

² Normal retirement requirements for the Pension Plan are age 62 and 6 years of creditable service, or 30 years of FRS covered service regardless of age. Members of the Special Risk Class achieve normal retirement at age 55 and 6 years of special risk service, or 25 years of special risk service regardless of age.

Requesting a Distribution

To request a distribution or a rollover, you must call the Investment Plan Administrator at 1-866-446-9377, Option 4, or log onto MyFRS.com and designate the type of distribution you wish to take. You do not need to complete any paper forms in order to request a distribution.

Distribution Options

This chart describes your distribution options. Please read it carefully and then use the MyFRS financial guidance resources for free, unbiased assistance.

OPTION	DETAILS
<p>Leave Your Money in the Plan</p> <p><i>You have the option of leaving your money in the Investment Plan, even if you are no longer actively employed by an FRS employer.</i></p> <p><i>By keeping your money invested, you avoid paying taxes and penalties.</i></p>	<p>You may keep your money in the Plan as long as you have an account balance of more than \$1,000.*</p> <ul style="list-style-type: none"> • Although you will no longer receive employer contributions, your Investment Plan account may continue to grow as a result of investment earnings. • Your vested account will be subject to a quarterly \$6 account maintenance fee after you have no contributions to your account for 3 consecutive calendar months. • Choose from 20 investment options with low investment management fees. • You can roll eligible retirement funds from other qualified plans (e.g., 401(k), 403(b), IRAs, etc.) into your FRS Investment Plan account, even if you are no longer an active FRS member. • You will continue to have: <ul style="list-style-type: none"> • Free access to the unbiased financial planners at the MyFRS Financial Guidance Line for help in managing your account. • All the distribution options listed below. <p>* If your account balance is \$1,000 or less, you will receive a mandatory distribution subject to applicable taxes and penalties (see the De Minimis Distributions section on page 6 for further details and the option to avoid taxes/penalties by initiating a rollover).</p>

The following options enable you to receive income regularly in retirement:

<p>Fixed Annuity</p> <p><i>An annuity that provides a guaranteed set monthly payment.</i></p>	<ul style="list-style-type: none"> • Your monthly benefit will always stay the same. • You can choose to receive the annuity payments for a specified period or for the rest of your life. • Payments are not subject to market fluctuations.
<p>Variable Annuity</p> <p><i>An annuity whose monthly payments will vary according to the performance of the investment options you choose.</i></p>	<ul style="list-style-type: none"> • You choose the investment options. • You will receive a monthly annuity payment. • The long-term return rate may be higher or lower than it is for a fixed annuity, depending on investment performance. • You can choose to receive the annuity payments for a specified period or for the rest of your life.

Continues

OPTION	DETAILS
The following options enable you to receive income regularly in retirement:	
<p>Deferred Annuity <i>An annuity that delays income payments until you choose to receive them.</i></p>	<ul style="list-style-type: none"> You can make an initial premium deposit after you retire, but request that payments to you begin at a later point in your life. You can choose to receive the annuity payments for a specified period or for the rest of your life.
<p>Joint and Survivor Annuity <i>An annuity that provides a continuing benefit payment to your spouse or other beneficiary after you die.</i></p>	<ul style="list-style-type: none"> The survivor benefit usually ranges from 50% to 100% of the original benefit. You choose the percentage of the continuing benefit.
<p>Installment or Periodic Withdrawals <i>A flexible payment schedule that lets you decide how much money to withdraw and how often. (Note: This is not an annuity option.)</i></p>	<ul style="list-style-type: none"> You can receive the money you need for your living expenses while the balance remains invested. You can change the payment amount at any time. You can set up monthly, quarterly, semi-annual or annual payments.

If you would prefer to move your money to another qualified retirement plan, consider this:

<p>Roll Your Money Into a Qualified Retirement Plan <i>As long as your account balance is vested, you can roll the account balance into an Individual Retirement Account (IRA), Roth IRA, 401(k), 403(b), 457, or other qualified retirement plan.</i></p>	<p>By keeping your money invested, you defer taxes and penalties. However, another plan administrator may:</p> <ul style="list-style-type: none"> Charge higher investment management and administrative fees. Charge withdrawal or termination penalties. Offer fewer payout options than you have through the FRS Investment Plan. Pressure you to buy other products or services. <p>If your reason for rolling your money out of the Investment Plan is because you cannot make ongoing contributions to your Investment Plan account, you may want to consider leaving your Investment Plan account invested and make ongoing contributions to an outside account (e.g., IRA). At a later date, you can roll these funds into the Investment Plan.</p> <p>All rollover checks will be mailed to your address that is on record with the Investment Plan Administrator.</p> <p>Former FRS Investment Plan members (retirees) may roll eligible funds from other qualified retirement plans back into the FRS Investment Plan.</p>
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Continues

Age Doesn't Matter

Anyone who takes a distribution from their Investment Plan account is automatically considered "retired," regardless of whether or not you have reached normal retirement age.

OPTION

DETAILS

Consider this: Taking a lump-sum payment defeats the intended purpose of this money, which is to provide you with a retirement nest egg.

Lump-Sum Payment

You can choose to take a full or partial lump-sum distribution of your account balance and have it paid directly to you.

It's important to understand the tax implications of taking a distribution. Call the MyFRS Financial Guidance Line to speak with an unbiased financial planner at no cost or contact another tax advisor of your choosing at your expense.

When you receive a lump sum cash payment, you could lose 30% or more of your account value because you'll be taxed on the full distribution and may be subject to a 10% federal tax penalty for early distribution. You may also lose the income you could have earned if you kept your money invested. Please see page 5 for additional information.

Combination

You can choose any combination of distribution options allowed under the Investment Plan: annuities, installment and periodic withdrawals, rollovers, and lump-sum distribution.

Distributions will be based on the account balance at the close of business on the day the request is made, provided the request is completed by 4:00 p.m. ET. If the distribution is requested after 4:00 p.m. ET or on a non-business day, the distribution amount will be based on the account balance at the close of business on the next business day the financial markets are open.

Once a distribution is taken from your Investment Plan account, no additional interest earnings are earned on those funds. If you fail to cash or deposit the distribution check within 180 days, it will be voided; a replacement check must be requested for the same amount as the voided distribution check.

Installment Payments or Lump Sum Distributions from your Investment Plan account may be deposited directly into your personal banking account. ACH deposit information can be set up at any time on MyFRS.com, by logging in and going to Manage My Benefits, Manage Investments, and then clicking on Personal Information. If you want to receive your distribution as a check, the check will be mailed to your address that is on record with the Investment Plan Administrator.

Investment Plan Retirement Checklist

To make sure you don't miss any critical retirement planning deadlines, be sure to review the publication "Investment Plan Retirement Checklist," available on MyFRS.com under Publications.

Caution About Cashing Out

Many people choose to cash out their retirement account and spend the money on today's expenses. But cashing out is typically not in your best long-term interest.

Here's why: Your Investment Plan benefit is intended to provide you with retirement income. If you spend this money now, you may not have enough money to live comfortably in retirement — not to mention the taxes and penalties you will have to pay on your distribution.

Caution About Health Insurance Coverage

If you have health insurance benefits through your current employer and wish to continue this coverage after retiring, the FRS recommends that you speak with your employer **prior** to taking a distribution from your Investment Plan account to find out if you are eligible for this health insurance coverage.

Penalties and Taxes

If you receive a distribution of any of your Investment Plan balance (including a rollover to another plan) you will be considered retired under the FRS and:

- You will lose any non-vested prior FRS Pension Plan service.
- If you are re-employed by an FRS employer in the future, you:
 - Will not be entitled to membership in the Special Risk class.
 - Will not be eligible to receive disability coverage.
 - Will not be eligible to participate in the Deferred Retirement Option Program (DROP).
 - Will not be eligible for FRS membership (if initially reemployed on or after July 1, 2010).

See the Reemployment After Retirement section (page 9) for additional information.

If you withdraw your money now, there are tax consequences. You'll owe income taxes on your entire distribution in the year it's paid to you, unless you roll it over into another qualified plan.

- **A mandatory 20% will automatically be withheld**, as required by federal regulations, from funds that are not directly rolled over into another tax-deferred retirement plan.
- If you're under age 59½ when you receive a distribution, you may owe an **additional 10% federal tax penalty** on the taxable portion of your distribution unless you meet one of the federal exemptions. Call 1-866-446-9377, Option 1, for details.

Depending on your tax bracket, an Investment Plan account balance of \$30,000, for example, may be worth only \$21,000 if you cash it out. On the other hand, if you leave it invested until retirement age, it will be worth the full amount, plus investment earnings. **Think carefully about whether it's really worth it to potentially sacrifice as much as 30% or more of your retirement savings.**

See the Special Tax Notice (pages 12-15) for additional information.

Loss of Earnings

There's more to consider than just taxes and penalties. If you take a distribution, you will lose the earnings you could have gained by leaving your money in the Plan. Thanks to compounding — or the snowballing effect of gaining interest on earnings — your savings can really add up.

You choose...

Keep your money working		Cash out now	
Current balance	\$30,000	\$30,000	Current balance
Growth over 20 years (assuming 7% annual interest)	+\$86,000 *	-\$9,000	Pay penalties and taxes (assuming 30%)
Available balance after 20 years	\$116,000	\$21,000	Available balance

* Assumes no additional employer contributions.

De Minimis Distributions

If your account balance at termination is \$1,000 or less, it will be subject to an automatic distribution. No distribution will be made, however, until you have been terminated from all employment with FRS-covered employers for at least 6 calendar months. A de minimis distribution will either be:

- a complete lump-sum liquidation of your account, subject to the provisions of the Internal Revenue Code, or
- paid as a lump-sum direct rollover distribution on your behalf directly to the custodian of an eligible retirement plan, if you provide instructions to do so upon receiving notification of the de minimis distribution.

If you return to FRS-covered employment after receiving a de minimis distribution, you are not considered a reemployed retiree and will not be subject to the limitations applicable to such employees.

Required Minimum Distributions at Age 70½

If you choose to keep your money in the FRS Investment Plan, you can defer your benefits until a later date. You must start withdrawing at least a minimum amount, known as a Required Minimum Distribution (RMD), from your account no later than December 31st of the calendar year during which you reach age 70½ or terminate employment, whichever is later. The RMD for any year after the year you turn 70½ must be made by December 31st of that later year. For example, let's say you reach age 70½ on August 20, 2010. You must receive the RMD for 2010 from your retirement account by December 31, 2010.

The RMD amount calculation, which changes yearly, is based on your current age and your account balance at the end of the previous year. Any distributions you receive for the year must equal or exceed the RMD. An additional benefit payment will be sent to you in December of any year in which your total payments for that year do not equal or exceed your RMD.

If you are paid a federally mandated RMD from the FRS Investment Plan, you will not be considered a retiree nor will you lose any unvested service credit. If you receive an RMD and return to FRS covered employment in the future, you will be placed back in the FRS Investment Plan and earn additional service credit.

Note: The *Worker, Retiree, and Employer Recovery Act of 2008* suspended the payout of RMDs for calendar year 2009.

Changing Your Name or Address

Now that you are no longer working for an FRS employer, it is your responsibility to keep your name and address current with the Investment Plan Administrator. If your name or address changes after leaving FRS employment, do one of the following:

- Make the address change online (name changes cannot be made online) by logging onto MyFRS.com, then selecting “Manage My Benefits,” then “Manage Investments,” then “Personal Information,” then “Address Information” in the left-hand navigation menu, then “Add/Edit,” enter your new address and click “Submit.”
- Request a name/address change form by calling the MyFRS Financial Guidance Line toll-free at 1-866-446-9377 and selecting Option 4.

- Send a letter to the Investment Plan Administrator. The letter should include your previous address/name and new address/name, your Social Security number, and, if a name change, a copy of the court order, divorce decree, or marriage certificate, evidencing the legal name change.

The form or letter can be faxed to 1-888-310-5559 or mailed to:

**FRS Investment Plan Administrator
P.O. Box 56290
Jacksonville, FL 32241-6290**

If you do not request an address update, your distribution check (if applicable), member quarterly statements, and year-end tax forms will be mailed to your old address.

Health Insurance Subsidy (HIS)

As a terminated FRS Investment Plan member, you may be eligible to receive the HIS. The HIS is a supplemental benefit you receive to help you pay for your health insurance premiums. The HIS is not a health insurance policy. The HIS is a monthly benefit which you receive in the amount of \$5 for each year of creditable FRS service, with a minimum HIS of \$30 per month and a maximum HIS of \$150 per month. (The HIS is contingent on continued approval by the Florida legislature.)

If you predecease your spouse, only your spouse will be entitled to receive your HIS benefit. It is not available to any other beneficiary.

To be eligible to receive monthly HIS payments, you must meet the following requirements:

- Have terminated all FRS employment for at least 1 calendar month.
- Have 6 or more years of FRS-covered service.
- Have met the normal retirement age or service requirements of the FRS Pension Plan for your class of membership. For example, a Regular Class member must be either age 62 and have 6 years of service or have a total of 30 years of service; and a Special Risk member must be either age 55 with 6 years or have a total of 25 years of service.
- Have health insurance (Cover Florida Health Care Access Program, Medicare and TRICARE coverage are accepted).
- Have applied for the HIS.

Health Insurance Subsidy (HIS), continued

The following documentation must be submitted to the Division of Retirement:

1. A properly completed Application for Health Insurance Subsidy for Investment Plan Members (HIS-IP). The HIS-IP Form may be submitted to the Division of Retirement up to six months before your normal retirement date, even if other documents are not available.
2. A properly completed Health Insurance Subsidy Certification for Investment Plan Members (HIS-IP-2). This form must be completed after your termination date.
3. Proof of birth date. The Division will accept photocopies of one of the following, except for (g).
 - a. Birth Certificate
 - b. Delayed birth certificate
 - c. Census report more than 30 years old
 - d. Life insurance policy more than 30 years old
 - e. Letter from Social Security Administration stating the date of birth it has established for the payment of benefits
 - f. Certificate of Naturalization
 - g. In the absence of one of the above, a document from two of the following categories will be required:
 - (1) Birth certificate of child, showing age of parent (limit one);
 - (2) Baptismal certificate more than 30 years old;
 - (3) Hospital record of birth;
 - (4) School record at time of entering grammar school;
 - (5) A copy of your death certificate will be required if your spouse is applying for the subsidy.

The HIS payment will be payable beginning with the month in which you attain normal retirement date, provided the Division of Retirement has received Forms HIS-IP and HIS-IP-2 within 6 months following that date. If the Division receives the forms 7 or more months after your normal retirement date, the retroactive HIS payment will cover a maximum of 6 months.

If you leave FRS-covered employment and take a benefit distribution prior to meeting the normal retirement requirements, you must wait until you reach normal retirement age to begin receiving your HIS benefit. If you elect the FRS Investment Plan Hybrid Option, you will receive your HIS payment once you begin receiving your FRS Pension Plan benefit.

Note: It is your (or your surviving spouse's) responsibility to obtain certification of health insurance coverage and to apply for the health insurance subsidy using the required forms. HIS payments shall not be subject to assignment, execution or attachment or to any legal process whatsoever.

Contact the Division of Retirement if you have any questions or need to discuss your eligibility to receive the HIS. Call 1-866-446-9377, Option 3, or write to the Division of Retirement, Bureau of Retirement Calculations, P.O. Box 9000, Tallahassee, FL 32315-9000.

Reemployment After Retirement

If you receive any distribution from your Investment Plan account (including a rollover) you are considered a retiree. As a retiree, you may be reemployed by a private employer or by any non-FRS public employer without affecting your retirement benefits. You may not be reemployed with an FRS-participating employer in any capacity (FRS-covered or non-covered, including temporary, part-time, OPS and regularly established positions) for the first 12 months after taking a distribution without suspending your retirement benefits, except under limited circumstances as described below. Suspension of benefits, in this case, refers to your inability to take additional distributions from your Investment Plan account balance until certain requirements have been met. If you are reemployed with an FRS employer prior to taking a distribution of your benefits, you will not be considered to have terminated.

If you are reemployed by an FRS participating employer within the 6 calendar month period after taking a distribution (retiring), your retirement will be voided. You and your employer will be required to repay any benefits you received; your FRS membership will then be reinstated. An alternative to repaying these benefits is to terminate employment for an additional period to satisfy the 6 month termination requirement.

The provisions of the reemployment law vary, depending on whether you retired and are initially reemployed by an FRS employer before or after July 1, 2010, as follows.

Retirement and Reemployment Prior to July 1, 2010

Achieved Normal Retirement

If you have met the normal retirement requirements of the FRS Pension Plan (i.e., age 62 and 6 years of service or 30 years of service or, if Special Risk, age 55 and 6 years of Special Risk service or 25 years of Special Risk service), you may return to work in certain excepted positions as described below during and through the 12th month after retirement without suspending benefits. You may return to this limited employment after being off all FRS-covered payrolls for at least 6 calendar months. You may return to work in any position after being retired for 6 calendar months if you suspend your retirement benefits for the remainder of the 6 months after retirement or work in one of the excepted positions for the remaining 6 months.

Not Achieved Normal Retirement

If you have not met the normal retirement requirements of the FRS Pension Plan as described above, you may not return to FRS-covered employment in an excepted position until you have been retired for 6 calendar months (i.e., 6 calendar months following the month in which a distribution was taken). After being retired for 6 calendar months you may return to employment in one of the excepted positions during the remaining 6 months after retirement without suspending your retirement benefits, or you may return to work in any position if you suspend your retirement benefits for the remainder of the 6 months.

After 1 Year

Once 1 year has passed since retirement, you can receive further Investment Plan distributions even if you are reemployed by an FRS employer.

Renewed Membership

Renewed membership in the FRS is available for this employment if you retired and were initially reemployed by an FRS employer in an FRS-covered position prior to July 1, 2010.

Continues

Be Aware!

The FRS considers you “retired” if you take any distribution (cash-out or rollover) from your Investment Plan account.

Reemployment After Retirement, continued

Exceptions to the Reemployment Law (apply only if retired and initially employed prior to July 1, 2010)

If you retire from the Investment Plan and are initially reemployed prior to July 1, 2010 in any of the following positions during your first year of retirement, you may be exempt from the reemployment limitations, or you may be otherwise eligible for a limited exception, as follows:

- **A retiree who is elected or appointed** to an elective office is exempt from reemployment limitations during the first year of retirement.
- **A retired justice or judge** on temporary assignment to active judicial service pursuant to Article V of the State Constitution is exempt from the reemployment limitations.
- **Florida District Schools Boards** – After meeting the above requirements, Investment Plan retirees may be reemployed as classroom teachers on an annual contractual basis. Additionally, noncontractual employment is allowed without further limitation for Investment Plan retirees who are hired as substitute or hourly teachers, education paraprofessionals, transportation assistants, bus drivers, or food service workers.
- **Florida School for the Deaf and the Blind** – After meeting the above requirements, Investment Plan retirees may be reemployed as substitute teachers, substitute residential instructors, or substitute nurses on a noncontractual basis.
- **Charter Schools** – After meeting the above requirements, Investment Plan retirees may be reemployed as classroom teachers on an annual contractual basis, or as substitute or hourly teachers on a noncontractual basis.
- **Developmental Research Schools** – After meeting the above requirements, Investment Plan retirees may be reemployed on an annual contractual basis as classroom teachers, or as substitute or hourly teachers or educational paraprofessionals on a noncontractual basis.
- **Community Colleges** – After meeting the above requirements, Investment Plan retirees may be reemployed as adjunct instructors or phased retirement program participants for up to 780 hours during the first year of retirement as described above.
- **Universities** – After meeting the above requirements, Investment Plan retirees may be reemployed as adjunct faculty or phased retirement program participants with the State University System for up to 780 hours during the first year of retirement as described above.

Any affected reemployed retiree who is not eligible for an exception or who exceeds the 780-hour limitation should notify the Investment Plan Administrator at 1-866-446-9377, Option 4.

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Reemployment After Retirement, continued

Retirement and Reemployment On or After July 1, 2010

You may not return to employment with an FRS-covered employer until you have been retired for 6 calendar months (i.e., 6 calendar months following the month in which a distribution was taken). If you've been retired for 6 calendar months, and you return to employment with an FRS-covered employer during the next 6 months after retirement, no additional Investment Plan distributions are permitted until you either terminate employment or complete a total of 12 months of retirement. There are no reemployment exceptions in this instance.

After 1 Year

Once 1 year has passed since retirement, you can receive further Investment Plan distributions, even if you are reemployed by an FRS employer.

Renewed Membership

Renewed membership in the FRS is **not** available for individuals who are initially reemployed on or after July 1, 2010.

Special Tax Notice – Governmental Plan Payments (other than 457 Plans)

This notice explains how you can continue to defer Federal income tax on your retirement savings in your Plan and contains important information you will need before you decide how to receive your Plan benefits. This notice does not address any applicable State or local tax rules that may apply.

This notice is provided to you 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 an 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, or in the case of a Roth conversion, to obtain tax-free investment returns. Your payment cannot be rolled over to 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; 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.

If you have additional questions after reading this notice, you should contact your plan administrator at 1-866-446-9377, Option 4.

Summary

There are two ways you may be able to receive a Plan payment that is eligible for rollover:

- 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
- The payment can be PAID TO YOU.

If you choose a **DIRECT ROLLOVER**:

- You choose whether your payment will be made directly to your IRA (traditional or Roth) or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account because these are not traditional or Roth IRAs. A distribution of non-Roth amounts can be rolled

over to an eligible employer plan, a traditional IRA or, by paying taxes on the non-Roth amounts and converting them to Roth amounts, a Roth IRA.

- You may roll the payment to a traditional IRA or an eligible employer plan and 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.
- You may roll the payment to a Roth IRA and later distributions from the Roth IRA (including a distribution of earnings) will not be taxed, provided that the distribution is a “qualified distribution” from the Roth IRA. In order to convert non-Roth amounts into Roth amounts by means of a rollover into a Roth IRA, you must otherwise be eligible to make such a conversion within an IRA.

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 or in accordance to plan guidelines 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 59½, you may have to pay an additional 10% early withdrawal tax. The Additional tax would be assessed when you file your 1040 tax return.
- 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.

Special options are available to eligible retired public safety officers which are described below under “Payment Paid to You.”

Your Right To Waive The 30-Day Notice Period

Generally, neither a direct rollover nor a payment paid to you 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 verbal election over the plan administrator’s recorded telephone line indicating whether or not you wish to continue with the transaction and waive the waiting period. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan Administrator.

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More Information

- I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER
- II. DIRECT ROLLOVER
- III. PAYMENT PAID TO YOU
- IV. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

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 an 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 Education Savings Account. The portion of a payment (if any) that is drawn from an after-tax contributions account can be rolled over to an IRA or to an eligible employer plan that accepts after tax rollover contributions. The portion of a payment (if any) that is drawn from other types of accounts can be rolled over to an eligible employer plan, a traditional IRA, or if you make a Roth conversion, a Roth IRA. 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 rollovers of the after-tax contributions. The following rules apply:

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

Rollover into an Employer Plan. You can roll over your after-tax contributions to an eligible employer plan using a DIRECT ROLLOVER if the other plan agrees to accept the rollover and provide separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You can roll over after-tax contributions to either a qualified defined contribution or defined benefit plan under Code section 401(a) or a tax-sheltered annuity under Code section 403(b). 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 an IRA and then roll over that amount into an employer plan.

Conversion of Non-Roth Amounts by Means of a Rollover into a Roth IRA.

You may be eligible to roll over non Roth amounts into a Roth IRA and thereby make a Roth “conversion.” You may not

make such a conversion if you are not otherwise eligible to make a Roth conversion within a Roth IRA, which generally means you are not eligible if: * (1) your modified adjusted gross income for the year the distribution is made from the Plan exceeds \$100,000 or (2) you are married and lived with your spouse at some time during the taxable year and you filed a separate tax return. Any required minimum distribution you receive from an IRA or eligible retirement plan is disregarded for purposes of determining whether you are eligible to make a conversion to a Roth IRA.

The amount of the conversion, minus any return of your tax basis, is taxable as ordinary income in the year the conversion occurs (the year the rollover distribution occurs). * The 10% penalty tax on early withdrawals does not apply to the conversion amount, but unless an exception applies, any withdrawal of conversion amounts from your Roth IRA within the five calendar year holding period beginning on the first day of the taxable year in which your first Roth IRA contributions were made would be subject to the 10% penalty tax on early distributions.

* The law includes a special rule for conversions that occur in 2010. For that year only, unless you elect otherwise, income from a conversion will not be reported in 2010, but instead will be reported in two equal installments in 2011 and 2012. The income will be accelerated; however, to the extent you take withdrawals before 2012. Once you have made a conversion to a Roth IRA, you cannot roll over the Roth IRA into another qualified plan (even if that plan has a Roth contribution feature).

Payments That Cannot Be Rolled Over. 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 (1) your lifetime (or a period measured by your life expectancy), or (2) your lifetime and your beneficiary’s lifetime (or a period measured by your joint life expectancies), or (3) a period of 10 years or more.

Required Minimum Payments. Beginning when you reach age 70½ 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.

The Investment Plan Administrator should be able to tell you if your payment includes amounts that cannot be rolled over.

II. DIRECT ROLLOVER

A **Direct Rollover** is a direct payment of the amount of your Plan benefits to an 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. If your DIRECT ROLLOVER is into a traditional IRA or an eligible employer plan, you are not taxed on any taxable portion of your payment until you later take it out of the traditional IRA or eligible employer plan. If your DIRECT ROLLOVER is into a Roth IRA, you are taxed on the taxable portion of your payment in the conversion to Roth treatment, and if the later distribution from the Roth IRA is a “qualified distribution,” you are not taxed when you take it out of the Roth IRA. 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. Any eligible rollover distribution that you receive from the Plan that is otherwise non-taxable, and that you wish to roll over to an eligible employer plan, can be rolled over only in a DIRECT ROLLOVER.

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

Direct Rollover of a Series of Payments. If you receive a payment that can be rolled over to an 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 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 have your benefit rolled over to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or an 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 59½" and "Special Tax Treatment if You Were Born before January 2, 1936."

Physical Payment of the Direct Rollover. The Investment Plan Administrator does not currently process electronic direct rollovers to other retirement plan providers. A direct rollover is accomplished by making the distribution check payable to the new retirement plan provider for the benefit of the member. This type of distribution still qualifies for the direct roll over provisions outlined above.

III. PAYMENT PAID TO YOU

If your payment can be rolled over (see Part I above) and the payment is PAID 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 an IRA or an eligible employer plan that accepts rollovers (or unless you are an eligible retired public safety officer who makes the election to pay health care or long term care premiums, described in this section below). 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 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 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 an 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 an 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. This sixty day rollover option is also available for converting to a Roth IRA.

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 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 an 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.

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 59½. If you receive a payment before you reach age 59½ 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

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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, (3) payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (4) payments that are paid directly to the government to satisfy a Federal tax levy, (5) payments that are paid to an alternate payee under a qualified domestic relations order, (6) payments that do not exceed the amount of your deductible medical expenses, or (7) payments from a governmental defined benefit pension plan to a qualified public safety official following separation from service after age 50. 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 an IRA will become subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless one of the exceptions applies.

Special Tax Treatment If You Were Born Before January 2, 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 Part 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. 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 59½ or because you have separated from service with your employer (or, in the case of a self-employed individual, after you have reached age 59½ 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 2, 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.

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, a governmental 457 plan, 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 an 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 an 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.

Special Election by Eligible Retired Public Safety Officers. If you are an "eligible retired public safety officer," you may make an election to exclude up to \$3,000 of your otherwise taxable payment from your gross income, and not be

taxed on the amount you exclude, by instead having your payment directly made to the provider of an accident or health insurance plan or a qualified long term care insurance contract covering you, your spouse, or your dependents. All distributions are combined from all of your eligible retirement plans (section 401(a), 457(b), 403(a) and 403(b) plans) for purposes of the \$3,000 limit. You are an "eligible retired public safety officer" if you separated from service as a public safety officer of the employer maintaining the plan, and your separation from service was due to your disability or attainment of normal retirement age. Contact the Plan Administrator for more information about this special election.

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 Part 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.

The Plan may, but is not required to, allow non-spouse beneficiaries to make a DIRECT ROLLOVER of their share of an employee's account. If you are a beneficiary other than a surviving spouse or a former spouse who is an alternate payee, you should check with the Plan Administrator to see whether the Plan allows you to make a DIRECT ROLLOVER.

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 59½.

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 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 the Plan Administrator, an Ernst & Young Financial Planner, 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 or by calling 1-800-TAX-FORMS.

