# MAKE THE DECISION THAT'S BEST FOR YOU

Separation from state service is a big step which requires making many decisions. Whether you are retiring, moving to a job outside state government or leaving the state to pursue family or educational goals, you need to decide how to handle the benefits you are eligible to receive. Choosing how you want your Deferred Compensation account distributed is one of these decisions. Thanks to new tax laws, you will be allowed to set the distribution date and time that best fits your needs, and, if your needs change, your distribution election can also be changed.

## Things You Need To Consider

- When you want your account distributed,
- How you want it distributed, and
- Your tax consequences.

You have a variety of distribution options from which to choose - a single lump sum, installments, or a plan-to-plan rollover. In addition, you may choose to begin distribution immediately, or wait to start it until some future date. You may also change or discontinue the distibution method you have chosen.

This booklet is designed to help you understand your distribution choices, so that you can make an informed decision that is best for your personal situation. Distribution materials, including the appropriate forms are also included with this booklet.

You may want to ask the advice of a financial planner or tax consultant before making your choice. If you have any questions, or would like additional information or assistance, call T. Rowe Price at 888-457-5770 or 800-521-0325 (TDD). A team of specialists will assist you.

## Who is eligible to take a distribution

You are eligible for a distribution when you separate State service and are off any State payroll for 30 days. If you begin a relationship as an independent contractor providing personal services to the State within the 30 day period, you will not be considered terminated and thus not eligible for a distribution.

## You now have time to decide

New rules allow you more flexibility in choosing your distribution method and the date you wish to begin your distribution. There is is no longer a 60-day election period after separation. As long as you are under age 70 1/2, you can wait to make your distribution decision. When you are ready to begin distribution, contact T. Rowe Price at 888-457-5770.

## You can change your distribution decision

At no extra charge, you can start, change or stop your distribution decision since there is no longer the restriction of an 'irrevocable' election.

## Select how you want your account distributed

Your distribution can begin immediately or you can wait to start your distribution at any time until you reach age 70 1/2. Remember, there is no penalty for "early withdrawal" associated with distributions from this type of Plan.

- If the value of your account at separation is **$5,000 or less**, you may wait to make your distribution decision, take a lump sum distribution, or make the Plan-to-Plan rollover as discussed on the next page.

- If the value of your account at separation is **$5,000 or more**, you can choose any one of the available distribution methods listed on the next page.

## Paperless Distributions

To provide you with greater flexibility and ease, you can call T. Rowe Price at 888-457-5770 or 800-521-0325 (TDD) to request a distribution over the phone. You do not need to complete any distribution paperwork. Be sure to read the 457 Special Tax Notice Regarding Plan Payments on pages 11-14.

# YOUR DISTRIBUTION OPTIONS AT A GLANCE

| Your distribution choices | How it works |
|---|---|
| **Total lump sum** | A complete one-time distribution of the total value of your account. |
| **Partial lump sum** | A single payment that can be followed by installments or you can wait to resume any other payments. |
| **Installments** | The installment amounts may vary. Payments can be made monthly, quarterly, semi-annually or annually. See schedule for distribution dates.<br><br>You can choose:<br>-a definite number of years you want to receive payments<br>or<br>-a recalculation of your life expectancy annually to allow payments that would extend beyond your life expectancy at the time you separate state service. |
| **Fixed Dollar Installments** | You decide the amount of each installment payment, which stays constant. Payments can be made monthly, quarterly, semi-annually or annually. |
| **Plan-to-plan Rollovers** | You may move your retirement plan assets between retirement plans in the public, private, education and nonprofit sectors as you move between employment in those sectors. Monies may be moved between (to and from) 401, 403(b) and governmental 457 plans as well as Traditional IRAs. |

# Rollovers

Legislative changes now make it possible for separated employees to rollover their retirement assets among 401(k) plans, 403(b) plans, 457 plans and traditional IRA's. Rollovers provide an opportunity for the nation's workforce to consolidate their holdings to a single plan. This will assist in simplifying retirement saving decisions, such as asset allocation and distribution elections, by considering only one account. However, this provision also clearly places the responsibility on the participant to verify the rollover plan's quality of investments and study its expenses.

Participants may want to review each of the options of distribution and review the plan in which they may intend to rollover their money. Investigate each plan for trading costs, restrictive plan rules, and all the costs and fees for initiating and maintaining such a transfer. After all, you have worked hard to save for retirement and build your account to its current day balance.

If you decide to rollover your account, you may rollover just part of it or all of it. A direct rollover from one plan to the other is preferable. Indirect rollovers, when the participant receives the distribution, have a mandatory federal tax withholding of 20%. Also, some plans do not accept indirect rollovers. The State of Illinois Deferred Compensation Plan does not accept indirect transfers into the plan.

# Considerations for Investors

When choosing another retirement plan, there are several issues to consider.

- Does your new employer accept rollovers? While it is mandated that plans allow for a rollover out, it is optional to accept a rollover into a plan.
- What kind of investment options does your rollover plan contain? Will the plan's offerings provide for adequate diversification?
- Assets transferred from a Section 457 government deferred compensation plan must assume the characteristics of the receiving plan. There is no penalty for distribution prior to age 59 ½ in a Section 457. Does your rollover plan have any penalties for early distribution?
- What kind of access will you have to your account and what services are provided?

# WHEN DISTRIBUTIONS WILL BEGIN

## How installment payments are calculated

The amount of your installment payment is calculated by dividing your current account value by the total number of payments remaining. For example, if you choose five annual installments, the first installment amount will be your account value divided by 5. The next year, the installment amount will be your account value at that time divided by 4.

You may choose any number of years or amount until you reach age 70 1/2. After that your payments may have to be adjusted to comply with the Minumum Distribution requirements. If you elect fixed dollar installments, the amount may have to be adjusted periodically, after you turn age 70 1/2, to meet federal distribution guidelines.

If you choose installments, each installment may be electronically wired to your checking or savings account. If you select this option, complete the Authorization Agreement for Automatic Deposits Form for Distributions found on the internet at : http://www.state.il.us/cms/download/pdfs/emp_trpdirdep.pdf

Once you start distribution, your distribution payment(s) will be made according to the Plan's Distribution Schedule. Refer to it for specific accounting dates--the dates that your payments are valued and withdrawn from your account, as well as the dates the checks are mailed or the money wired.

Your payment is taken proportionally from each of your investment options. For instance, if 60% of your money in the Deferred Compensation Plan is in Fund A and 40% is in Fund B, a $100 payment would be taken proportionally from each Fund - $60 from Fund A and $40 from Fund B.

## Total lump sum

Your lump sum will be valued for distribution the first accounting date of the month your completed distribution form is effective.

## Partial lump sum

Your partial lump sum will be valued for distribution the first accounting date of the month your completed distribution form is effective. After choosing a partial lump sum, you may resume distributions at a later date or you may begin installments.

## Installments

Your first installment (whether calculated or fixed dollar amount) will be valued for distribution the first accounting date for that type of payment.

# Your Income Tax Conse-quences

The State of Illinois Deferred Compensation Plan is authorized under section 457 of the Internal Revenue Code. Your deferrals and any earnings compound free of current taxes. However, for federal tax purposes, your Deferred Compensation is fully taxable as retirement income when it is distributed to you or your beneficiary.

Deferred Compensation payments are not taxable under the Illinois Income Tax Act and therefore are not subject to Illinois withholding. Out-of-state residents' Deferred Compensation payments may be taxable under the income tax laws of their own state.

Federal income tax withholding is mandatory. New rules distinguish between distributions taken over a ten year period or greater and those that do not.

## Distributions over a 10 year period or greater

If you choose a distribution method that extends for a period of 10 years or greater, your withholding will be calculated using the federal withholding tables based on the way you complete the W-4P form. Note that no other income is considered when making the calculation. Remember that you may put an additional amount on line 3 of the W-4P form or we do accept the following percentages: 10%, 11%, 15%, 20%, 23%, 25%, 28%, 30%, 35%, or 40% of the distribution amount to be withheld.

If you do not complete a W-4P form, the withholding will be calculated at a “married-claiming three dependents” rate.

## Less than 10 year Distributions

If you choose a a lump sum distribution or a distribution method that extends for a period of less than 10 years, the IRS requires that a minimum of 20% be withheld. You may complete the form W-4P to withhold an amount greater than 20%. If you do not complete a W-4P form, 20% will be withheld.

## Social Security Payments Not Affected

Your rights to Social Security will not be affected when your Deferred Compensation account is distributed. Your distribution has already been taxed for Social Security purposes. The Social Security Administration does not consider your Deferred Compensation distribution as earned income to be applied against the maximum a Social Security recipient can earn before Social Security is reduced.

## Your Account After You Leave State Service

After you separate from state service, you may no longer defer or make contributions to your account. However, as long as you have an account balance, it will continue to be subject to market fluctuation according to the investment options you continue to choose. You will also continue to earn interest and/or dividends and receive quarterly statements. In addition, you may move money from one investment option to another in your account. Call T. Rowe Price at 888/457-5770 or 800/521-0325 (TDD) anytime day or night to make transactions. To speak to a representative, call business days between 7:30 a.m. and 9 p.m. (central time). You may also use your computer to make exchanges or check account information by logging onto rps.troweprice.com.

**DEFERRED COMPENSATION**
**MONTHLY INSTALLMENT SCHEDULE**
**01/01/09**

| ACCOUNTING DATE | | DATE CHECK MAILED/WIRED |
|---|---|---|
| 01/05/09 | Recurring Payments | 01/09/09 |
| 01/12/09 | New Payouts | 01/16/09 |
| 02/09/09 | | 02/13/09 |
| 03/09/09 | | 03/13/09 |
| 04/06/09 | | 04/10/09 |
| 05/11/09 | | 05/15/09 |
| 06/08/09 | | 06/12/09 |
| 07/06/09 | | 07/10/09 |
| 08/10/09 | | 08/14/09 |
| 09/08/09 | | 09/11/09 |
| 10/05/09 | | 10/09/09 |
| 11/09/09 | | 11/13/09 |
| 12/07/09 | | 12/11/09 |
| 01/11/10 | Recurring Payments | 01/15/10 |
| 01/19/10 | New Payouts | 01/22/10 |
| 02/08/10 | | 02/12/10 |
| 03/08/10 | | 03/12/10 |
| 04/05/10 | | 04/09/10 |
| 05/10/10 | | 05/14/10 |
| 06/07/10 | | 06/11/10 |
| 07/06/10 | | 07/09/10 |
| 08/09/10 | | 08/13/10 |
| 09/07/10 | | 09/10/10 |
| 10/11/10 | | 10/15/10 |
| 11/08/10 | | 11/12/10 |
| 12/06/10 | | 12/10/10 |
| 01/10/11 | Recurring Payments | 01/14/11 |
| 01/18/11 | New Payouts | 01/21/11 |
| 02/07/11 | | 02/11/11 |
| 03/07/11 | | 03/11/11 |
| 04/11/11 | | 04/15/11 |
| 05/09/11 | | 05/13/11 |
| 06/06/11 | | 06/10/11 |
| 07/11/11 | | 07/15/11 |
| 08/08/11 | | 08/12/11 |
| 09/06/11 | | 09/09/11 |
| 10/10/11 | | 10/14/11 |
| 11/07/11 | | 11/11/11 |
| 12/05/11 | | 12/09/11 |

**DEFERRED COMPENSATION**
**QUARTERLY, SEMI-ANNUAL, AND ANNUAL INSTALLMENT SCHEDULE**
**01/01/09**

**Quarterly distributions will be made according to the following schedule.**

| ACCOUNTING DATE | | DATE CHECK MAILED/WIRED |
|---|---|---|
| 01/05/09 | Recurring Payments | 01/09/09 |
| 01/12/09 | New Payouts | 01/16/09 |
| 04/06/09 | | 04/10/09 |
| 07/06/09 | | 07/10/09 |
| 10/05/09 | | 10/09/09 |
| 01/11/10 | Recurring Payments | 01/15/10 |
| 01/19/10 | New Payouts | 01/22/10 |
| 04/05/10 | | 04/09/10 |
| 07/06/10 | | 07/09/10 |
| 10/11/10 | | 10/15/10 |
| 01/10/11 | Recurring Payments | 01/14/11 |
| 01/18/11 | New Payouts | 01/21/11 |
| 04/11/11 | | 04/15/11 |
| 07/11/11 | | 07/15/11 |
| 10/10/11 | | 10/14/11 |

**Semi-annual and Annual distributions will be made according to the following schedule.***

| | | |
|---|---|---|
| 01/05/09 | Recurring Payments | 01/09/09 |
| 01/12/09 | New Payouts | 01/16/09 |
| 07/06/09 | | 07/10/09 |
| 01/11/10 | Recurring Payments | 01/15/10 |
| 01/19/10 | New Payouts | 01/22/10 |
| 07/06/10 | | 07/09/10 |
| 01/10/11 | Recurring Payments | 01/14/11 |
| 01/18/11 | New Payouts | 01/21/11 |
| 07/11/11 | | 07/15/11 |

* Semi-Annual payouts are distributed in January and July

Annual payouts are distributed in January or July , followed by payment on each annual anniversary thereafter.

## DISTRIBUTION PERIOD TABLE

| AGE | DISTRIBUTION PERIOD | AGE | DISTRIBUTION PERIOD | AGE | DISTRIBUTION PERIOD |
|---|---|---|---|---|---|
| 5 | | 42 | 54.4 | 79 | 19.5 |
| 6 | | 43 | 53.4 | 80 | 18.7 |
| 7 | | 44 | 52.4 | 81 | 17.9 |
| 8 | | 45 | 51.5 | 82 | 17.1 |
| 9 | | 46 | 50.5 | 83 | 16.3 |
| 10 | | 47 | 49.5 | 84 | 15.5 |
| 11 | | 48 | 48.5 | 85 | 14.8 |
| 12 | | 49 | 47.5 | 86 | 14.1 |
| 13 | | 50 | 46.5 | 87 | 13.4 |
| 14 | | 51 | 45.5 | 88 | 12.7 |
| 15 | 81.2 | 52 | 44.6 | 89 | 12.0 |
| 16 | 80.2 | 53 | 43.6 | 90 | 11.4 |
| 17 | 79.2 | 54 | 42.6 | 91 | 10.8 |
| 18 | 78.2 | 55 | 41.6 | 92 | 10.2 |
| 19 | 77.3 | 56 | 40.7 | 93 | 9.6 |
| 20 | 76.3 | 57 | 39.7 | 94 | 9.1 |
| 21 | 75.3 | 58 | 38.7 | 95 | 8.6 |
| 22 | 74.3 | 59 | 37.8 | 96 | 8.1 |
| 23 | 73.3 | 60 | 36.8 | 97 | 7.6 |
| 24 | 72.3 | 61 | 35.8 | 98 | 7.1 |
| 25 | 71.3 | 62 | 34.9 | 99 | 6.7 |
| 26 | 70.3 | 63 | 33.9 | 100 | 6.3 |
| 27 | 69.3 | 64 | 33.0 | 101 | 5.9 |
| 28 | 68.3 | 65 | 32.0 | 102 | 5.5 |
| 29 | 67.3 | 66 | 31.1 | 103 | 5.2 |
| 30 | 66.3 | 67 | 30.2 | 104 | 4.9 |
| 31 | 65.3 | 68 | 29.2 | 105 | 4.5 |
| 32 | 64.3 | 69 | 28.3 | 106 | 4.2 |
| 33 | 63.3 | 70 | 27.4 | 107 | 3.9 |
| 34 | 62.3 | 71 | 26.5 | 108 | 3.7 |
| 35 | 61.4 | 72 | 25.6 | 109 | 3.4 |
| 36 | 60.4 | 73 | 24.7 | 110 | 3.1 |
| 37 | 59.4 | 74 | 23.8 | 111 | 2.9 |
| 38 | 58.4 | 75 | 22.9 | 112 | 2.6 |
| 39 | 57.4 | 76 | 22.0 | 113 | 2.4 |
| 40 | 56.4 | 77 | 21.2 | 114 | 2.1 |
| 41 | 55.4 | 78 | 20.3 | 115 & older | 1.9 |

**SAFE HARBOR EXPLANATION FOR GOVERNMENTAL 457 PLANS**

An updated version of the Safe Harbor Explanation that was published in Notice 2000-11, 2000-6 I.R.B. 572, to reflect changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), P.L. 107-16.

SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

This notice explains how you can continue to defer federal income tax on your retirement savings in the State of Illinois Employees' Deferred Compensation 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 Central Management Services, Deferred Compensation Division (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; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan). The Plan is a 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. If this is the case, you may wish instead to roll your distribution over to a traditional IRA or to 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 can contact your plan administrator at 1-800-442-1300 ext. 3, 217-782-7006, or TDD/TTY at 1-800-526-0844.

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.
- Your payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from this Plan.

If you choose to have a Plan payment that is eligible for rollover PAID TO YOU:

- You will receive only 80% of the taxable amount of the payment, because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over.
- You can roll over all or part of the payment by paying it to your traditional 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, <u>you must find other money to replace the 20% of the taxable portion that was withheld</u>. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

Your Right to Waive the 30-Day Notice Period.

Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan Administrator.

MORE INFORMATION



## 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 rollovers. 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 whether your payment is an eligible rollover distribution.

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.

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

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

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

## 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 Part 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 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.

DIRECT ROLLOVER of a Series of Payments. 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 the Plan. See the sections below entitled "Additional 10% Tax May Apply to Certain Distributions."

III. PAYMENT PAID TO YOU

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

Income Tax Withholding:

Mandatory Withholding. If any portion of your payment can be rolled over under Part I above and you do not elect to make a DIRECT ROLLOVER, the Plan is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable payment of $10,000, only $8,000 will be paid to you because the Plan must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, unless you 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, 10% will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan Administrator for the election form and related information.

Sixty-Day Rollover Option. If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to a traditional 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 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: Your payment that can be rolled over under Part I above is $10,000, and you choose to have it paid to you. You will receive $8,000, and $2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the $8,000, you may roll over the entire $10,000 to a traditional 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 May Apply to Certain Distributions. Distributions from this Plan are generally not subject to the additional 10% tax that applies to pre-age-59 1/2 distributions from other types of plans. However, any distribution from the Plan that is attributable to an amount you rolled over to the Plan (adjusted for investment returns) from another type of eligible employer plan or IRA amount is subject to the additional 10% tax if it is distributed to you before you reach age 59 1/2, unless an exception applies.

Exceptions to the additional 10% tax generally include (1) 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), (2) payments that are paid from an eligible employer plan after you separate from service with your employer during or after the year you reach age 55, (3) payments that are paid because you retire due to disability, (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, or (6) payments that do not exceed the amount of your deductible medical expenses. These exceptions may be different for distributions from a traditional IRA. See IRS Form 5329 for more information on the additional 10% tax.

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

In addition, any amount rolled over from the Plan to another type of eligible employer plan or to a traditional IRA will be subject to the additional 10% tax if it is distributed to you before you reach age 59 1/2, unless an exception applies.

## 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.

If you are a beneficiary other than a surviving spouse or an alternate payee, you cannot choose a direct rollover, 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 Part III above, even if you are younger than age 59 1/2.

## 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*, or by calling 1-800-TAX-FORMS.