National Life Group®

**Life Insurance Company of the Southwest™**

# Annuity Withdrawal Request -
**403(b) and Roth 403(b) Tax Sheltered Annuities**

**Your Plan Administrator's signature is required on this form prior to sending to LSW.**

## A. Owner Information

Owner: ____________________ Policy/Certificate Number: ____________________

Owner's Social Security / Tax I.D. Number: ____________________ Telephone No.: ____________________

Mailing Address: *(Street, City, State & Zip Code)* ____________________ Employer: ____________________

____________________

☐ New address?

## B. I request a:

☐ Partial Withdrawal of $ __________ *(This is the "Gross" amount. Applicable taxes and withdrawal charges will be withheld.)*
☐ Maximum Partial Withdrawal *(Minimum balance will be retained and surrender charges may be applicable.)*
☐ Maximum Free Withdrawal
☐ Full Surrender *(If applicable, please contact your payroll department to discontinue contributions.)*

**For the SecurePlus Saver Series only:**
☐ Partial Withdrawal of Immediate Interest Credit of $ __________
☐ Full Withdrawal of Immediate Interest
☐ One Time additional withdrawal of 10% Free available after the first Policy Year.

## C. Withdrawal Instructions

**Please pay such withdrawal/surrender value as indicated:**
☐ Direct Deposit to my Bank. *(Direct Deposit form required. Please allow 3 business days from the date selected for the direct deposit to be available.)*
☐ Directly to me as Owner. *(Please allow 10 business days for the check to be received from the date that the check is mailed.)*
☐ Trustee-to-Trustee Transfer *(named below)*. A Letter of Acceptance is required for a transfer. Please contact the new institution.
☐ Qualified Direct Rollover *(named below)*. A Letter of Acceptance is required for a rollover. Please contact the new institution.
☐ To a Financial Institution *(named below)*. ***Note: Direct Deposit not available.***

Financial Institution Name: ____________________ Account Number: ____________________ *(if applicable)*

Address: *(Street, City, State, Zip Code)* ____________________

____________________

**For Multi-Account Annuities:**
You may designate the type of Interest Account from which to deduct a **partial withdrawal.** If you make no such election, the Partial Withdrawal will be deducted from all Interest Accounts in proportion to their value.

• Any amount in the Premium Account will be deducted first. • This information is outlined in your Policy.

☐ I request my partial withdrawal to be processed in the following manner:

**Multi-Account Annuities:**
Declared Interest Account (007) __________%
**S & P 500®**
Ending Index (003) __________%
Average Index (005) __________%

**SecurePlus Saver Series:** (Multi-Account/Multi-Index Annuities)
Declared Interest Account (007) __________%
**S & P 500®**
Ending Index Rate Option 1 (003) __________%
Ending Index Rate Option 2 (008) __________%
Average Index Account (005) __________%
**Russell 2000®**
Ending Index Rate Option 1 (009) __________%
Ending Index Rate Option 2 (010) __________%

## D. Conditions for Withdrawal

**Withdrawal of Post-1988 Contributions and the Earnings Thereon** ***(These withdrawals are subject to certain restrictions)***

This section applies to withdrawals of contributions made to a 403(b) TSA after December 31, 1988, and to the earnings thereon. One of the conditions below must be met. Please review the Annuity Withdrawal Information attached before completing the form. Please check every applicable box to expedite handling of this request.

**Qualifying Events:**

- ☐ Attainment of age 59½
- ☐ Severance from employment after age 55
- ☐ Severance from employment
- ☐ Plan Termination *(Requires letter from employer stating the entire plan has terminated)*
- ☐ Active-Duty Reservist as defined in the Pension Protection Act of 2006
- ☐ Disability as defined in Sec. 72(m) of the Internal Revenue Code
- ☐ Hardship. The need that causes the hardship cannot be relieved **(a)** through reimbursement or compensation by insurance; **(b)** by reasonable liquidation of assets; **(c)** by cessation of salary reduction or other elective contributions to this TSA or any other plan;**(d)** by other distributions, or non-taxable loans from employer sponsored plans, or by borrowing from commercial lending sources at reasonable rates. In the case of hardship, withdrawals may not exceed an amount equal to the total of all premium payments made through a salary reduction agreement after December 31, 1988 and not previously withdrawn. **Note: Hardship withdrawals are not available on full surrenders with an outstanding loan balance.**

  **Hardship Statement:** I, the undersigned owner of this 403(b) annuity, acknowledge that: **(1.)** The distribution I have requested is not greater than the amount needed; **(2.)** I have exhausted all other possibilities reasonably at my disposal to meet this hardship, including loans from employer sponsored plans, unless a loan under the contract would increase the financial need which the distribution is necessary to satisfy; **(3.)** I understand that I cannot make salary reduction contributions (elective deferrals) to this TSA or any other employer sponsored plan for 6 months following the date of the hardship distribution; **(4.)** The maximum amount I can withdraw as a result of hardship is the actual amount needed to meet the hardship plus the amount needed to pay federal, state and local taxes on the hardship distribution. For transfer amounts from another company, I, the Owner, confirm this withdrawal request meets the requirements outlined in this statement.

  **The nature of the hardship is:**

  - ☐ to pay medical expenses for the owner, spouse or other dependent *(circle one).*
  - ☐ to purchase a principal residence.
  - ☐ to pay tuition for post-secondary education for the owner, spouse, children or other dependent *(circle one).*
  - ☐ to prevent eviction from or foreclosure on my principal residence.
  - ☐ to pay funeral/burial expenses for a parent, spouse, children, or other dependent *(circle one).*
  - ☐ to pay expenses for repair or damage to the employee's principal residence that would qualify for the casualty deduction under Section 165.

In addition to income tax, this distribution may be subject to a 10% premature distribution penalty imposed by the IRS.
Some qualifying events may require proof of eligibility.

## E. Withholding Instructions

**Notice of withholding on distributions or withdrawals from your annuity:** The distributions or withdrawals you receive from your annuity may be subject to federal income tax withholding. Withholding will only apply to the portion of your distribution or withdrawal that is includable as income on your tax return. Federal withholding of 20% of the distribution is required for TSA annuities unless your distribution **(a)** is rolled over to another eligible qualified plan; **(b)** is a trustee to trustee transfer; **(c)** is a minimum required distribution; **(d)** is a hardship. By signing this form, I hereby waive the 30-day notice requirement outlined in the attached Special Tax Notice. Distributions from Roth 403(b)'s will be tax free for federal income tax purposes provided that both the 5 year holding period and a qualifying event of attainment of age 59½, death, or disability have been met. Any taxable portion will be reported to the Internal Revenue Service.

**Withholding Instructions:** Please check one or more of the following boxes.

- ☐ I elect to have state income tax withheld.
- ☐ I do not want to have state income tax withheld unless state law so requires.
- ☐ This is a Hardship Distribution. I elect to have 10% Federal Income Tax withheld.

## F. General Agreement

I understand the new Regulations to IRC 403(b) require that any company receiving a transfer of 403(b) monies have an Information Sharing Agreement with the applicable employer (Plan Sponsor) in effect prior to January 1, 2009. I assume full responsibility for determining whether the Financial Institution listed under section C on page 1 has entered into such Agreement. I have consulted with my tax accountant/advisor and understand the severe income tax consequences if such an Agreement is not completed.

**Certification:** I hereby certify that I meet IRS requirements for this distribution as set forth in Sec. 403(b)(11) for any portion of this withdrawal that applies to post-December 31, 1988 contributions and earnings. I understand and agree that LSW assumes no responsibility as to the effect and sufficiency of the distribution. The undersigned contract owner(s) and/or undersigned assignee(s) agree to fully indemnify and reimburse the Company for any and all loss, expense or damage it may sustain from any claim resulting from the company having paid the contract(s) without securing surrender of the original contract(s) or any previously issued duplicate/certification.

By receipt of this distribution, if you invoke your *Right to Examine this Policy* as defined on the policy form, your return of premium will be net of this distribution.

**W9: Under penalties of perjury, I hereby certify that:** (1) the number shown on this application is my correct taxpayer identification number; (2) the IRS has never notified me that I am subject to backup withholding, or has notified me that I am no longer subject to such withholding or I am exempt from such withholding; and (3) I am a U.S. person (including a U.S. resident alien). *You must cross out item 2 if you have been notified by the IRS that you are currently subject to backup withholding because of underreporting interest or dividends on your tax return.*

## G. Signatures

Owner's Signature: Date: *(mm/dd/yyyy)*

________________________________________

Spouse's Signature*:

________________________________________

**Plan Administrator's Signature & Title:** ***(Required)***

________________________________________

* Your spouse's signature is required on any 403(b) policy covered by ERISA; and on all requests in the following states: AZ, CA, ID, LA, NM, NV, TX, WA, WI. If you have a change in marital status, you must provide a certified copy of the legal document (i.e. name change, divorce decree, death certificate).

† **To expedite, please obtain a Notary Signature for the Owner.**
***(Signature guaranteed acceptable)***

Personally appeared before me, __________________________ , known to me to be the person described in and who executed the forgoing instrument, who acknowledges to me that he/she executed the same freely and voluntarily and for the uses and purposes therein mentioned.
Witness my hand and official seal.

Notary Signature: Date: *(mm/dd/yyyy)*

________________________________________

My commission expires ____________________ , 20 ________ .

†***Notarized signatures are optional.***

National Life Group®

# Request for Direct Deposit

Use this form to request direct deposit of annuity payments and withdrawals from your annuity to your checking or savings account on your behalf. If payments will go to a checking account, please attach a blank check on which you write "void." If payments will go to a savings account, please attach a blank withdrawal slip that includes an encoded routing number.
**Note: Deposit slips are not acceptable for deposits to checking or savings accounts.**

*It takes 3 business days from the payment date for the direct deposit to be processed by the banking institution.*

**Annuity Payments:**

1. It takes approximately 30 days to open, change, or discontinue a direct-deposit agreement. Therefore, the initial payment, or payment following a change may be made with a physical check.
2. If at some point in the future you change your mind or want the payments to go to a different institution, simply complete another request and send it to us.

Policy No.: ______________________

Policyowner: ______________________

Name of Institution: ______________________

Routing No.: ______________________

Address: *(Street, City, State, Zip Code)* ______________________

______________________

☐ Checking account No.: ______________________

☐ Savings account No.: ______________________

PLACE PREPRINTED VOIDED CHECK

OR

PREPRINTED SAVINGS WITHDRAWAL SLIP HERE

(PLEASE DO NOT USE STAPLES)

I authorize Life Insurance Company of the Southwest/National Life Insurance Company to deposit annuity payments or withdrawals directly into the above account and to debit my account for any deposit they have made in error.

Sign below exactly as your signature appears on the records of the Institution named above.

Policy Owner's Signature: ______________________ Date: *(mm/dd/yyyy)*

Please print your name: ______________________

Joint Owner Signature: *(if applicable)* ______________________ Date: *(mm/dd/yyyy)*

**For Home Office Use Only:**

Processed by: ______________________

Verified by: ______________________



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# Special Tax Notice Regarding Plan Payments

**(Not applicable to Roth 403(b) Annuities)**

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

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 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 the benefit 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 4O3(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 that plan accepts rollovers and, if so, the types of distributions that plan 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 other 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 who is named in the information included in your policy/certificate packet.

## Summary

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

(1) Certain payments can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit ("DIRECT ROLLOVER"); or

(2) The payment can be PAID TO YOU.

If you choose a DIRECT ROLLOVER:

- Your payment will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The taxable portion of your payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from this Plan.

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

- You will receive only 80% of the taxable amount of the payment, because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59½, you may have to pay an additional 10% tax.
- You can roll over all or part of the payment by passing 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.

## 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
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 payments from the plan 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 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:

*a) Rollover into a Traditional IRA.* You can roll over your after-tax contributions to a traditional IRA either directly or indirectly. Your Plan administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax portion.

If you roll over after-tax contributions to a traditional IRA, it is your responsibility to keep track of, and report to the Service on the applicable forms, the amount of these after-tax contributions. Reporting this amount will enable the nontaxable amount of any future distributions from the traditional IRA to be determined.

Once you roll over your after-tax contributions to a traditional IRA, those amounts CANNOT later be rolled over to an employer plan.

*b) Rollover into an Employer Plan.* You can roll over after-tax contributions from an employer plan that is qualified under Code section 401(a) or a section 403(a) annuity plan to another such plan using a direct rollover if the other plan provides separate accounting for amount rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You can also roll over after-tax contributions from a section 403(b) tax-sheltered annuity to another section 403(b) tax-sheltered annuity using a direct rollover if the other tax-sheltered annuity provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You CANNOT roll over after-tax contributions to a governmental 457 plan. If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the Plan Administrator of this Plan to make a direct rollover on your behalf. Also, you cannot first roll over after-tax contributions to a traditional IRA and then roll over that amount into an employer plan.

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

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

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

**Required Minimum Payments.** Beginning when you reach age 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. Special rules apply if you own 5% or more of your employer.

**Hardship Distributions.** A hardship distribution cannot be rolled over.

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

**Corrective Distributions.** A distribution made to correct a failed nondiscrimination test or because legal limits on certain contributions were exceeded cannot be rolled over.

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

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

## 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. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment, as explained below. However, if you have your benefit rolled over to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or a traditional IRA in a DIRECT ROLLOVER, your benefit will no longer be eligible for that special treatment. See the sections below entitled "Additional 10% Tax if You Are under Age 59½" and "Special Tax Treatment if You Were Born before January 1, 1936."

## 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 rollover 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 rollover only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

**Example:** The taxable portion of your payment that can be rolled over under Part I above is $10,000, and you choose to have it paid to you. You will receive $8,000, and $2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the $8,000, you may roll over the entire $10,000 to a traditional 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 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) dividends paid with respect to stock by an employee stock ownership plan (ESOP) as described in Code section 404(k), (5) payments that are paid directly to the government to satisfy a federal tax levy, (6) payments that are paid to an alternate payee under a qualified domestic relations order, or (7) payments that do not exceed the amount of your deductible medical expenses. See IRS Form 5329 for more information on the additional 10% tax.

The additional 10% tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) from another type of eligible employer plan or IRA. Any amount rolled over from a governmental 457 plan to another type of eligible employer plan or to a traditional IRA will become subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless one of the exceptions applies.

**Special Tax Treatment If You Were Born before January 1, 1936.** If you receive a payment from a plan qualified under section 401(a) or a section 403(a) annuity plan that can be rolled over under 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. (See also "Employer Stock or Securities," below.) A lump sum distribution is a payment, made within one year, from 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 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates). Ten-year averaging often reduces the tax you owe.

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

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

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

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

If you receive only employer stock in a payment that can be rolled over, no amount will be withheld from the payment. If you receive cash or property other than employer stock, as well as employer stock, in a payment that can be rolled over, the 20% withholding amount will be based on the entire taxable amount paid you (including the value of the employer stock determined by excluding the net unrealized appreciation). However, the amount withheld will be limited to the cash or property (excluding employer stock) paid to you.

If you receive employer stock in a payment that qualifies as a lump sum distribution, the special tax treatment for lump sum distributions described above (such as 10-year averaging) also may apply. See IRS Form 4972 for additional information on these rules.

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

## 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 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 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.