Frequently Asked Questions:
QUALIFIED RETIREMENT PLAN DISTRIBUTIONS

These frequently asked questions and answers are provided for general information purposes only and should not be cited as any type of legal authority. They are designed to provide information on general inquiries, due to the uniqueness of each plan document the information contained here may not apply to all plans and in all situations.

When can I get a distribution of the funds in my qualified retirement plan?

The distribution of a participant's vested account balance may begin when the participant retires, terminates employment, becomes disabled, or dies. The distribution process is similar in each of these cases; however, different paperwork may be required and different distribution options may be available depending on the type of plan, the situation under which the separation of service occurred, and the amount of the vested account balance.

<u>Separation from Service: Participant Terminates Employment or becomes Disabled</u>
When a participant terminates employment or becomes disabled, the distribution process is generally started as soon as administratively possible during the first plan year following the year the participant's separation from the employer.

Note: If a participant becomes disabled and is not able to care for his/her affairs because of a mental or physical condition, the plan administrator may distribute the vested account balance to the participant's beneficiary, guardian, conservator, trustee, or to his/her attorney if there is no other known representative of the participant.

<u>Separation from Service: Participant Reaches Normal Retirement Age</u>
When a participant who has reached normal retirement age terminates employment, the distribution should begin no later than 60 days after the close of the plan year in which their employment was terminated.

<u>Separation from Service: Death of the Participant</u>
After a participant's death, the distribution process should begin as soon as administratively possible. If the vested account balance is less than $5,000.00 the distribution will be made in a lump sum to the participant's beneficiary. If the vested account balance is more than $5,000.00 the participant's beneficiary may elect the distribution method under the same rules applied to a distribution after termination of employment.

When the plan administrator begins the distribution process an election period should be determined. The election period is normally a 180-day period beginning when the distribution paperwork is sent to the participant. The end of the election period is generally referred to as the "distribution date"; however, the distribution may not occur on that particular date.

What are my distribution options?

Depending on the type of plan and the amount of the participant's vested account balance, the distribution options may differ. A qualified retirement plan may allow for lump sum distributions, installment payments, annuity distributions, or rollover into another qualified retirement plan or an Individual Retirement Account (IRA).

If the participant's vested account balance exceeds $500.00, the participant can split their distribution and receive a portion as a lump sum distribution and roll the remainder into another qualified plan or IRA.

Defined benefit plans, money purchase pension plans, target benefit plans, and certain types of defined contribution plans must provide for a qualified joint and survivor annuity as a distribution option. A qualified joint and survivor annuity consists of periodic payments made for the life of the participant and the participant's beneficiary.

What if my distribution is over $5,000.00?

If the participant's vested account balance **exceeds $5,000.00**, the following forms are provided to the participant:

Participant Distribution Notice
This notice explains the participant's distribution rights under the Plan, the participant's right to postpone distribution, and the financial effect and taxation of the participant's distribution options.

Participant Distribution Election
This form allows the participant to elect the method of their distribution. A married participant's spouse must complete the consent portion of this form if the participant has elected a form of distribution other than the qualified annuity benefit.

Special Tax Notice Regarding Plan Payments
This form contains information regarding the federal income tax options for plan distributions, the mandatory 20% withholding tax on an eligible rollover distributions, and the participant's right to elect a direct rollover of the distribution in order to avoid the withholding. (See "Will Taxes be Withheld from my Distribution?" for additional information on taxation).

Postponement of Distribution
This form allows the participant to postpone their distribution if they do not wish to start the distribution process at the present time. The participant will provide a postponement date and the plan administrator will begin the distribution process and set a new election period based on the participant's postponement request. The distribution cannot be postponed after the time that the participant will reach the age of 70½ because of required minimum distribution regulations. (See "What is a Required Minimum Distribution?" for additional information on mandatory distributions).

What if my distribution is under $5,000.00?

If the participant's vested account balance is **<u>less than $5,000.00</u>**, the following forms are provided to the participant:

> <u>Participant Distribution Notice</u>
> This notice explains the participant's distribution rights under the Plan, the participant's right to postpone distribution, and the financial effect and taxation of the participant's distribution options.
>
> <u>Participant Distribution Election</u>
> If the participant's vested account balance is less than $5,000.00, the participant cannot postpone the distribution. The participant must choose one of the available distribution methods. If the participant's vested account balance is less than $1,000.00 the default distribution method is a lump sum distribution.
>
> <u>Special Tax Notice Regarding Plan Payments</u>
> This form contains information regarding the federal income tax options for the plan distributions, the mandatory 20% withholding tax on an eligible rollover distribution, and the participant's right to elect a direct rollover of the distribution in order to avoid the withholding. (See "Will Taxes be Withheld from my Distribution?" for additional information on taxation).

Will taxes be withheld from my distribution?

The law requires the plan administrator to withhold income taxes from plan distributions. Different taxation rules apply depending on whether the distribution is an "eligible rollover distribution", which includes all plan distributions *except*:

1) non-taxable payments (after-tax employee contributions);

2) payments spread over a period of at least 10 years, or over the lifetime of the participant or beneficiary; and

3) required minimum distribution payments.

If the participant is entitled to receive an eligible rollover distribution, they can avoid income tax withholding by rolling the distribution into an IRA or another qualified retirement plan. However, if the participant elects to receive any portion of an eligible rollover distribution, the mandatory 20% withholding must be deducted from the amount distributed to the participant.

If the participant is entitled to receive a distribution that is not eligible for rollover, income tax withholding is voluntary. However, unless the participant elects not to withhold the plan administrator must deduct the withholding from the distribution amount.

Periodic/installment payments from the Plan are treated like regular wage payments; the taxation depends on the amount of the payment and the number of exemptions claimed by the participant. Non-periodic/lump sum payments are taxed at a rate of 10% for withholding. Withholding taxes from a plan distribution are made under the plan's taxpayer identification number, not the employer's taxpayer identification number; plan distribution withholding taxes must be deposited separate from payroll withholding taxes.

What if I have a loan from the plan at the time of my distribution?

If the participant has an outstanding loan balance from the plan at the time employment is terminated, the distribution amount will be offset by the balance of the loan. The amount of the loan offset is treated as a distribution to the participant and the participant will be taxed on the offset amount in the tax year in which the offset is made.

If the participant receives an additional distribution payment after the loan offset is made the 20% withholding from that distribution amount will be based on the *entire* amount the participant received, including the loan-offset amount that was deemed a distribution.

A loan-offset distribution is not eligible to rollover into an IRA or other qualified retirement plan so the 20% withholding is mandatory. Any distribution the participant receives in addition to the loan offset is eligible for rollover into an IRA or other qualified retirement plan in order to avoid the 20% withholding.

What is a Required Minimum Distribution?

A qualified retirement plan must begin annual required minimum distributions of the vested account balance of a participant once the participant reaches age 70½ and has separated from service with the employer. The required minimum distribution process must begin no later than April 1st of the calendar year following the year in which an eligible participant attains age 70½.

A participant who reaches age 70½ and is still working for the employer is not required to take minimum distributions. A participant who is at least a 5% owner must take required minimum distributions once they reach age 70½ even if they are still working for the employer.

What happens if I do not return the distribution paperwork?

If a participant fails to return their Participant Distribution Election or Postponement of Distribution Form (if applicable) to the Plan Administrator within 120 days from the date they received the notice, the distribution process will have to be restarted incurring additional costs and delays.

If a participant fails to return their Distribution Election Form or Postponement of Distribution Form (if applicable) to the Plan Administrator within 120 days from the date of the second request the Participant will be deemed a "missing participant".

The plan may distribute a missing participant’s vested account balance in a lump sum without their consent in any of the following situations:

1) the participant terminates employment with a vested account balance not exceeding $5,000.00 and the plan provides for an immediate distribution at the time the participant separates from service;

2) the participant attains the later of age 62 or normal retirement age and the plan provides for immediate distribution upon reaching normal retirement age; or

3) the plan is a defined contribution plan, the plan is terminating, and the IRS Code permits a distribution to the “missing participant”.

The Plan may not distribute a missing participant’s vested account balance if the balance exceeds $5,000.00. In these cases, the Plan Administrator must obtain a completed Participant Distribution Election before the funds can be distributed.