DMBA

150 Social Hall Avenue, Suite 170
P.O. Box 45530 • Salt Lake City, Utah 84145
Telephone: 801-578-5600 • Toll free: 800-777-3622
Fax: 801-578-5904 • Website: www.dmba.com

MASTER RETIREMENT PLAN
SPECIAL TAX NOTICE REGARDING PAYMENTS

This notice contains important information you will need before you decide how to receive your benefit from the Master Retirement Plan.

SUMMARY

A payment from the plan that is eligible for *rollover* can be paid in two ways. You can have all or any portion of your payment either (1) paid in a *direct rollover*, or (2) paid to you. A direct rollover is a payment of your plan benefit to your individual retirement account (IRA) or to another employer plan, such as your existing Deseret 401(k) Plan account. This choice will affect the taxes you owe.

If you choose a direct rollover, your payment will:

- not be taxed in the year it is paid and no income tax will be withheld,
- be made directly to your IRA or another employer plan that accepts your rollover, and
- be taxed only when you take it out of the IRA or employer plan.

If you choose to have your plan benefit paid to you:

- you will receive only 80% of the payment because DMBA is required to withhold 20% of the taxable portion of the payment and send it to the IRS to be credited toward your income taxes.
- your payment will be taxed in the year it is paid unless you roll it over. You may be able to use special tax rules that could reduce the tax you owe. But if you receive the payment before age $59\frac{1}{2}$, you may have to pay an additional 10% tax.
- within 60 days of receiving payment, you can roll over the payment to your IRA or another employer plan that accepts your rollover. The amount rolled over will be taxed only when you take it out of the IRA or employer plan.
- and if you want to roll over 100% of the taxable portion of the payment to an IRA or an employer plan, you must find other money to replace the 20% that was withheld. If you roll over only the 80% you received, you will be taxed on the 20% that was withheld.

MORE INFORMATION

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER

Payments from the plan may be eligible rollover distributions. This means they can be rolled over to an IRA or to another employer plan that accepts rollovers. DMBA can tell you what portion of your payment is an eligible rollover distribution. The following types of payments cannot be rolled over:

Non-taxable Payments: In general, only the taxable portion of your payment is an eligible rollover distribution.

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 life expectancy),
- your lifetime and your beneficiary's lifetime (or life expectancies), or
- 10 years or more.

Required Minimum Payments: Beginning the year you turn age 70½, a portion of your payment cannot be rolled over because it is a required minimum payment that must be paid to you.

II. DIRECT ROLLOVER

You can choose a direct rollover of all or part of your payment that is an eligible rollover distribution, as described previously. In a direct rollover, the eligible rollover distribution is paid directly from the plan to an IRA or another employer plan that accepts rollovers. If you choose a direct rollover, your payment will be taxed only when you take it out of the IRA or employer plan.

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 not sure about how to invest your money, you can temporarily establish a traditional IRA to receive the payment. But in choosing a traditional IRA, you may wish to consider whether the traditional IRA you choose will allow you to move all of 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 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 a plan and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. An employer plan is not legally required to accept a rollover. If your new employer's plan does not accept a rollover, you can choose a direct rollover to an IRA.

Direct Rollover of a Series of Payments: If you receive eligible rollover distributions that are paid in a series 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.

III. PAYMENT MADE TO YOU

If you have the payment made to you, the taxable portion is subject to 20% income tax withholding. The payment is taxed in the year you receive it, unless you roll it over to an IRA or another employer plan that accepts rollovers within 60 days. If you do not roll it over, special tax rules may apply.

Federal Income Tax Withholding

Mandatory Withholding: If any part of your payment is an eligible rollover distribution, DMBA is required to withhold 20% of that amount for income tax. This 20% is sent to the IRS to be credited toward your taxes.

> **Example:** If your eligible rollover distribution is $10,000, only $8,000 will be paid to you because DMBA must withhold $2,000. When you prepare your income tax return for the year, you will report the full $10,000 as a payment from the plan. But you will report the $2,000 as tax withheld, and it will be credited toward any income tax you owe for the year.

Voluntary Withholding: If any part of your payment is not an eligible rollover distribution but is taxable, the mandatory withholding rules described previously do not apply. In this case, you may choose not to have taxes withheld from that portion. To choose not to have taxes withheld, ask DMBA for the appropriate form and related information.

Sixty-day Rollover Option: If you have an eligible rollover distribution paid to you, you can still choose to roll over all or part of it into an IRA or another employer plan that accepts rollovers. If you choose to roll it over, you must make the rollover within 60 days after you receive the payment. The part of your payment that is rolled over will be taxed only when you take it out of the IRA or the employer plan.

You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the IRA or employer plan to replace the 20% that was withheld. Otherwise, if you roll over only the 80% you received, you will be taxed on the 20% that was withheld.

> **Example:** Your eligible rollover distribution 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. Within 60 days after receiving the $8,000, you may roll over the entire $10,000 to an IRA or employer plan. To do this, you roll over the $8,000 you received from the plan and an additional $2,000 from other sources (your savings, a loan, etc.). If you do this, the entire $10,000 will be taxed only when you take it out of the IRA or employer plan. When you file your income tax return, you may get a refund of the $2,000 withheld.
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> On the other hand, if 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. But any refund is likely to be smaller than if you roll over the entire $10,000.

Additional 10% Tax If You're Younger Than 59½: If you receive a payment before you turn age 59½ and you don't roll it over, then in addition to regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of your payment. This tax does not apply to your payment if it is (1) paid because you separate from service with your employer during or after the year you reach age 55, (2) paid because you retire because of disability, (3) paid as equal, or almost equal, payments over your life or life expectancy (or your beneficiaries' lives or life expectancies), or (4) used to pay certain medical expenses.

See IRS Form 5329 for more information on the additional 10% tax.

Special Tax Treatment: If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. But if it 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 in the plan (and certain other similar plans of the employer) that is payable to you because you have reached age 59½ or have separated from service with your employer (or in the case of a self-employed individual, because you have reached age 59½ or have become disabled). For a payment to qualify as a lump sum distribution, you must have been a participant in the plan for at least five years. The special tax treatment for lump sum distributions is described below.

> ***10-year Averaging If You Were Born Before January 1, 1936:*** 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) instead of five-year averaging (using current tax rates). Like five-year averaging, 10-year averaging often reduces the tax you owe.
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> ***Capital Gain Treatment If You Were Born Before January 1, 1936:*** In addition, if you receive a lump sum distribution and you were born before January 1, 1936, you may choose to have the part of your payment that is attributable to your pre-1974 participation in the plan (if any) taxed as long-term capital gain at a rate of 20%.

Other limits on the special tax treatment for lump sum distributions apply.

Example: You can generally choose 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. If you have previously rolled over a payment from the plan (or certain other similar plans of the employer), you cannot use this special tax treatment for later payments from the plan. If you roll over your payment to an IRA, you will not be able to use this special tax treatment for later payments from the IRA. Also, if you roll over only a portion of your payment to an IRA, this special tax treatment is not available for the rest of the payment.

Additional restrictions are described in IRS Form 4972, which has more information on lump sum distributions and how you can choose the special tax treatment.

IV. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

In general, the rules summarized in this document 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. Some of the rules also apply to a deceased employee's beneficiary who is not a spouse.

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, and paid in a direct rollover to a traditional IRA or to an eligible employer plan or paid to you. If you have the payments paid to you, you can keep it or roll it over yourself to a traditional IRA or an eligible employer plan.

Beneficiaries: If you are a beneficiary other than a surviving spouse or an alternate payee and receive a distribution on or after January 1, 2007, you can choose to be paid in a direct rollover to a traditional IRA, which will be treated as an inherited IRA subject to the minimum distribution rules applicable to beneficiaries. You cannot choose a direct rollover to a Roth IRA or an eligible employer plan, and you cannot roll over the payment yourself.

Special Rules for Surviving Spouses, Alternate Payees, and Other Beneficiaries: If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is generally not subject to the additional 10% tax described in section III above, even if you're younger then $59^1/_2$.

If you are a surviving spouse, an alternative payee, or other beneficiary, you may be able to use the special tax treatment for lump sum distributions as described in Section III. 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 five years of participation in the plan.

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the federal (*not state or local*) tax rules that may apply to your payment. The rules described here are complex and contain many conditions and exceptions that are not included in this notice. So you may want to consult a professional tax advisor before you receive the benefit from the plan.

Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, *Pension and Annuity Income*, and IRS Publication 590, *Individual Retirement Arrangements*. To request these publications, contact your local IRS office or call 1-800-TAX-FORMS.