Payout Guide

A GUIDE TO OPTIONS FOR YOUR STATE OF MICHIGAN 401(K) AND 457 PLAN ACCOUNTS

state of michigan
401(k) & 457 PLANS

1-800-748-6128 http://stateofmi.ingplans.com

state of michigan
401(k) & 457 PLANS

State of Michigan 401(k) and 457 Plan Participant:

You've worked hard for your money — now it's important to keep your money working for you.

Whether you are leaving State employment to retire or to change careers, you face important decisions about your savings in the State of Michigan 401(k) and 457 Plans.

The Plans are designed to help you with both stages of retirement planning — savings accumulation while you're employed and income replacement during your retirement. As you prepare to leave State employment, you have options regarding what to do with the money in your Plan accounts. There are no deadlines for making these decisions, so take your time. You can:

- Keep your money in the Plans and postpone payments until later
- Begin taking distributions now
- Roll part or all into a traditional IRA or another eligible retirement plan

Keeping your money in the Plans may provide you with advantages you can't find outside the Plans. You'll continue to receive the benefits of being part of a large group plan, including a wide range of low cost of institutionally-priced funds, easy online or phone account access and management, access to the ING Advisor Service, and flexible payout options including fixed annuities. You may also wish to roll your other tax-deferred assets into your State of Michigan account for ease of management up to one year after your termination of employment.

Developing a withdrawal strategy should be an important part of your retirement planning process. Before you make your payout decisions, you'll want to consider the tax consequences of receiving payments based on your age, life expectancy, upcoming lifestyle changes and your other possible sources of income, including pension and Social Security benefits. This is also a good time to review your beneficiary designation for the Plans and update as needed. You are encouraged to speak with your tax advisor before making any decisions.

This guide is designed to answer many of your questions as you prepare to enter this next chapter of your life. In addition, we encourage you to contact one of the Plans' Distribution Specialists for questions about your payout options. They are trained to provide you with the information you may need to make your decisions. To speak with a Distribution Specialist, call toll-free 877-624-7602, or call the Lansing area office at 517-636-6077 to schedule an appointment.

Sincerely,

State of Michigan
401(k) and 457 Plan Administration

Table of Contents

For More Information

ING, the administrator for the State of Michigan 401(k) and 457 Plans, can be contacted in the following ways:

Online:

Plan Web site access 24/7:
http://stateofmi.ingplans.com
For Plan, investment and beneficiary information, forms and much more.

By Phone:

The Plan Information Line: (800) 748-6128
The automated phone system is available 24/7. Customer Service Representatives are available Monday – Friday, 8:00 a.m. to 8:00 p.m.
Distribution Specialists: **(877) 624-7602**

By Mail:

State of Michigan 401(k) and 457 Plans
P.O. Box 55497
Boston, MA 02205-5497

In Person:

Lansing area office: For general plan information or to schedule an appointment, call the local office at (517) 636-6077.

7150 Harris Drive, GOB
Dimondale, MI 48821

For questions about the Defined Benefit Plans, please contact the State of Michigan Office of Retirement Services at **(517) 322-5103** or **(800) 381-5111**.

A Planning Ahead

What should I do as I consider leaving State employment?

1. Attend a pre-retirement seminar. Sign up through Civil Service.
2. Read this booklet.
3. Review your investment plan with your tax/financial planner.
4. Update your beneficiary designation information with ING.
5. Update your address information with Human Resources before termination or with ING after termination.
6. Review your investment plan.
7. If you are a 401(k) Defined Contribution Plan participant, and need information about insurances, disability or death benefit information, call the Plan Information Line.
8. Apply for retiree insurances at the Office of Retirement Services approximately three months prior to eligibility.

What happens when I leave State employment?

1. Your Human Resource Representative enters your termination date on the payroll system.
2. The State of Michigan transmits your termination date to ING.
3. ING mails you a copy of this booklet.
4. There are no deadlines unless you are 70½ or older. *(See section C on page 5.)*

How will deferrals be taken from my final paycheck?

Deferrals will be taken in the same manner as from your other checks. If you are deferring a percent (e.g., 10%), that same percent will apply to your final check even if it includes accumulated sick pay or vacation pay.

If you want to make a change before your final check, contact the Plan Information Line at **(800) 748-6128** at least two weeks before your final check will be issued.

What does separation from service mean?

Any separation from service, including your retirement, termination, or the decision to change careers, allows you (or, in the event of your death, a beneficiary) to receive payments from your Plan accounts. Separation from service also includes a disability on the date the disability is ruled to be total and permanent by the State of Michigan.

Leave of absence and layoff are not considered separation from service until the leave or layoff has expired and the employee becomes separated. Until then you may apply for a hardship distribution. Call ING for details.

In-service distributions are allowed from the 401(k) Plan after you reach age 59½.

B Making Your Elections When Leaving State Employment

What are my options when I leave State employment?

If your account balance is less than $500, you will automatically receive a lump sum payment if you take no action within 60 days. If your account balance is $500 or more and you are less than 70½ years of age, you have four choices:

1. Leave the money in your 401(k) and/or 457 Plan account(s) and maintain tax-deferred growth. You must begin taking distributions in the year you reach age 70½. *(See section C on page 5.)*
2. Consolidate your retirement savings by rolling additional money in from other retirement plans — such as from a 401(k), 401(a), 403(b), 457, or IRA. You can do this as an active employee or within one year of your termination of employment.
3. Select among several flexible payout options, similar to those in an IRA.
4. Roll your account assets over to an IRA or other eligible retirement plan.

When may I begin receiving payments?

You may begin receiving payments 30 days after your termination date if your *Payout Request Form* was received in a timely manner. For *Payout Request Forms* received after 30 days, payment will be made as soon as administratively feasible. ING must receive notice of your termination from the State of Michigan before payment can be issued.

All installment payments are made to the participant in the last week of the month for receipt by the 1st of the following month. A lump sum payment may be issued on any business day.

When do I designate my distribution date?

If you wish to start receiving distributions right away, fill out the *Payout Request Form* found on the Plan Web site in the *Forms* section and return it to ING at the address on the form. If you want distributions to begin later, you do not need to do anything now. When you are ready, fill out the *Payout Request Form*, return it to ING and payments can begin as soon as administratively feasible. Some distributions can be requested on the Plan Web site without completing the *Payout Request Form*.

C Minimum Annual Distribution Requirements

When must distributions begin and what are the annual minimum distribution requirements?

Internal Revenue Code §401 (a) (9) contains Required Minimum Distribution (RMD) rules. These regulations require payment to begin before April 1st of the year following the year you reach 70½ and that your payments must be in an amount that will exhaust your entire account balance within your projected life expectancy. If you wait until the later year to begin payments, you must receive a second annual minimum distribution payment before December 31st of that year.

If at age 70½ and thereafter, your payment amounts do not meet minimum distribution requirements, you will be issued an additional payment in December of each year to comply with these requirements.

If you remain employed with the State beyond April 1st following the year in which you reach age 70½, payment must begin by April 1st in the year following the year you separate from service. These Minimum Annual Distribution rules apply to both pre-tax and Roth balances in your 401(k) account.

Note: Recent Federal legislation allows participants over age 70½ to skip their RMD for calendar year 2009 with no penalty.

To determine your minimum payment amount, refer to the *Minimum Annual Distribution Worksheet* on page 9.

D Payout Options and Related Payment Information

What methods of payment are available to me?

You have several options, depending on your account balance, for taking distribution payments. For any of these options except #3, you may choose to use your pre-tax or Roth 401(k) account balances. Only options ***#3*** or ***#4*** are available if your account balance is less than $5,000. The minimum payment is $100.00 per month or $1,000 per year or your RMD if you are over age 70½.

1. You may elect to receive installments over a specified number of months or years, not to exceed your life expectancy. The amount of each installment will be calculated by dividing your account balance at the end of each period by the remaining number of payments.
2. You may elect to receive a specific dollar amount each month or year until the balance is exhausted.
3. You may roll over all or a portion of your balance to a pre-tax or Roth IRA. You may also transfer funds to another employer sponsored retirement plan, such as a 457, 401(k) or 403(b) plan, if that plan accepts such transfers.
4. You may take all or a portion of your balance as a lump sum withdrawal.
5. You may access Income Solutions to obtain several annuity quotes. If you decide to purchase an annuity, all or a portion of your pre-tax funds will be rolled over to an IRA to make that purchase. For more information on this option, visit the Plan Web site.

To estimate what your payout amounts might be, go to the Plan Web site, visit the *Resource Center*, and select the *Retirement Income Calculator* in the *Calculators* section.

[continued]

When can I withdraw my Roth 401(k) funds?

A qualified Roth 401(k) withdrawal is one that is made when you are age 59½ or older (or upon your death or disability) and your Roth 401(k) account has been open as least five years. See the *Publications* section of the Plan Web site for additional information on the Roth 401(k).

May I change my payment election once payments have begun?

Yes. Both Plans allow unlimited changes in payout at any time for your funds that remain in the Plans.

Are there any penalties for taking a withdrawal?

If you separate from State service before age 55, you may be subject to a 10% penalty on any 401(k) Plan pre-tax withdrawals made before age 59½. Exceptions to this penalty include: death of the participant, disability, QDRO, or substantially equal periodic payments; contact your tax specialist for details. If you withdraw any Roth 401(k) funds before you are age 59½ and the account has been established for five years, you would be required to pay taxes and a 10% penalty on the earnings portion of the withdrawal.

Payments from 457 plans are not subject to this penalty.

How will my investment funds be sold to make distributions?

All payments, regardless of frequency, will be issued from the Stable Value Fund first. If the money in the Stable Value Fund is not sufficient to cover the payment, liquidation from your other existing funds will occur on a pro-rata basis. If all your money is in a Self-Managed Brokerage Account, you will have to sell assets and transfer money to the core funds as needed to allow liquidation and disbursement to you. You may choose to have payments made from your pre-tax funds or your Roth funds. Otherwise, payments will be made pro-rata across all fund sources.

May payments be deposited directly into my bank account?

Yes. Electronic Fund Transfer (EFT) is now required for installment payments by completing the *Direct Deposit Information* on the *Payout Request Form* and returning it to ING.

Can my payment(s) be issued to another person?

No. Checks are issued to the participant, or in the event of death, to the beneficiary. For rollovers out, checks are made payable to the receiving institution for the benefit of the participant and the check is mailed to the participant at their address of record.

Does payment from the program affect my other State of Michigan retirement benefits?

No. Payments from the 401(k) and 457 Plans provide a means to supplement your other retirement benefits. If you are in the Defined Contribution Retirement Plan, payments from the Plans represent your total State of Michigan retirement benefit unless you retired under the Defined Benefit Plan and then were re-hired under the Defined Contribution Plan.

Does payment from the program affect my Social Security benefits?

Generally, no. However, at higher income levels, portions of your Social Security benefits may be reduced or become subject to federal income tax. Contact your tax professional for more information.

E Taxation of Distributions

Do I pay taxes on my 401(k) and 457 Plan payments?

Yes, depending on your tax bracket and the payment source, you may owe taxes. Payments from the pre-tax 401(k) and 457 Plans are considered earned income and will be taxed as ordinary income, not capital gains, in the year payments are issued. Therefore, if you choose a lump sum payment, the amount will be taxable to you in the particular tax year when the payment is issued.

Qualified withdrawals from the Roth 401(k) are not taxable because Roth contributions are made with after-tax dollars. To qualify for tax-free withdrawals, you must be age 59½ or older (or upon your death or disability) and have had money in your Roth account for at least five years.

Is money withheld from my payments for tax purposes?

Yes, for federal income tax purposes 20% will be automatically withheld from most pre-tax distributions according to IRS regulations. If you wish to have more than 20% withheld for federal taxes or if you wish to have state income tax withheld as well, you will need to complete the *Tax Withholding Form* available on the Plan Web site or by calling the Information Line. Required Minimum Distribution payments after 70½ will have 10%, or another amount that you choose, withheld for federal tax purposes. Qualified Roth 401(k) distributions will not have any taxes withheld.

Payments are reported to you and the Internal Revenue Service annually on form 1099-R.

Local taxes for which you may be liable are not withheld.

Are some of the contributions made to my account exempt from State of Michigan taxes at withdrawal?

Yes, the 401(k) Defined Contribution Retirement Plan contributions made by you and the State (the 4% State mandatory contribution, your first 3% and the State's matching 3% and earnings on these contributions) are not subject to State of Michigan taxes at withdrawal. Non-Michigan residents are not subject to Michigan income tax.

Qualified 401(k) Roth distributions are not taxable because contributions are made with after-tax dollars.

F Beneficiary Information and Distributions Upon Death of a Member

After I separate from service, may I change my beneficiary designation?

Yes. You can change your beneficiary designation on the Plan Web site or by calling the Information Line. You should review your beneficiary designation regularly. Your current beneficiary designation appears on your quarterly statement and on the Plan Web site under *Personal Information*.

What happens if I die and still have an account balance?

The payout options available upon the death of the participant are determined by several factors including who is named as beneficiary (spouse vs. non-spouse) and whether Required Minimum Distribution payments have already begun from the account. Please contact ING at the Plan Information Line if you need specific details.

What does my beneficiary need to do in the event of my death?

The beneficiary would need to send a letter and certified death certificate to:

State of Michigan 401(k) and 457 Plans
P.O. Box 55497
Boston, MA 02205-5497

Research will be done by ING to retrieve the latest beneficiary designation information. ING will send account balances and payout information to the beneficiary of record.

What happens if my beneficiary dies before the account is exhausted?

When more than one Beneficiary is designated and a percentage is not specified, payment will be made in equal shares to each Beneficiary. If the designated Beneficiary is the Participant's grandparent, the descendant of a grandparent, or a stepchild of the Participant, and the Beneficiary predeceases the Participant or dies before complete distribution, that Beneficiary's share shall be paid to his/her descendants, unless other arrangements are specifically designated on this form. If the designated Beneficiary is not the Participant's grandparent, the descendant of a grandparent, or a stepchild of the Participant, and the Beneficiary predeceases the Participant or dies before complete distribution, the Beneficiary's share shall be paid in equal shares to each surviving beneficiary. If no beneficiary survives the Participant, the benefit shall be payable to the Participant's spouse, or if no spouse, to the Participant's Legal Representative or if no Legal Representative, to the Participant's estate if then under active administration of a probate or similar court, or if not, to those persons who would then take the Participant's personal property under the Michigan intestate laws.

G Managing Your Account After Leaving State Employment

May I continue contributing to the 401(k) and 457 Plans after I separate from service?

No. Once you separate from service, you may no longer contribute to the Plans. However, you may roll over your retirement savings from other tax-deferred accounts into the Plans while employed or up to a year after termination of service. *Rollover Forms* are available on the Plan Web site.

Do accounts continue to receive earnings?

Yes. To the extent that the investments in your 401(k) and 457 accounts receive earnings, you will have such earnings credited to your accounts.

After I separate from service, may I change my investment choice(s)?

Yes. You may transfer funds from one investment option to another the same as when you were an employee.

Can one person's State of Michigan Plan account be consolidated with another person's account?

No. Because accounts are specific to individual taxpayers, accounts cannot be consolidated.

What happens if I leave employment before I am 100% vested in the Defined Contribution Retirement Plan?

You become 100% vested in the State of Michigan contributions after you complete four years of full-time service. If you terminate service before completing four years, the non-vested portion of your employer contributions will be forfeited from your account and will not be included in future statement balances.

What happens if I return to work?

If you return to work for the State or a participating political subdivision, you may re-enroll in the program. Your prior years of service will be reinstated for vesting purposes; however employer contributions already forfeited will not be reinstated. Any payouts that you are receiving from the Plans will be discontinued when you become an active employee unless you are over age 59½ and wish to continue receiving a 401(k) Plan distribution.

May I borrow against my 401(k) and 457 Plans after I leave employment?

No. Once you leave State service, you can no longer take a loan from the 401(k) Plan.

Also, once you terminate service, all outstanding participant loans must be repaid in full within 30 days or they will default and be reported to the IRS as taxable distributions.

Will I still receive statements after I separate from service if I continue with the Plan?

Yes. Statements will continue to be mailed quarterly as long as you have a balance in your account. You may also generate your account statement online.

How do I change my address if I move?

It is important that you keep your address current with ING. After you terminate service, call the Plan Information Line at **(800) 748-6128** and talk with a Customer Service Representative. An address change form can be sent to you. The forms are also available on the Plan Web site. As long as you are an active employee, address changes can only be made through your Human Resources office.

H Minimum Annual Distribution *WORKSHEET*

To determine your approximate minimum monthly payment amount to commence at age 70½, complete the fields below using the following instructions:

- Find the "Estimated Life Expectancy," at age 70½ and put this number in the first blank. You will need to round to the nearest whole number. (*See the Uniform Life Expectancy Table*)
- Multiply this, life expectancy years, by 12; and
- Divide your estimated account value at the time payments must begin by the "Life Expectancy Months" to determine your minimum monthly payment amount.
- You can repeat this calculation each year as you grow older.

Life Expectancy Years	
	x 12
Life Expectancy Months	

Account Value	$
Life Expectancy Months	÷
Minimum Monthly Payment	$

Uniform Life Expectancy *TABLE*

(Use to determine Required Minimum Distribution Payments)

As an example, assume that a retired participant attains age 70½ in the year 2008. If the value of the participant's account on December 31, 2007 is $50,000, the participant's required minimum distribution for the year 2008 is $1,825 ($50,000 divided by 27.4). In each subsequent year, the participant's account balance as of December 31st of the prior year should be divided by the Distribution Period in the table based upon the participant's attained age in that year (i.e., 26.5 in the year 2009 in our example). If the spouse is ten or more years younger than the participant, different rules apply. Please contact ING for more information.

Age	Estimated Life Expectancy/ Distribution Period
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22.0
77	21.2
78	20.3
79	19.5
80	18.7
81	17.9
82	17.1
83	16.3
84	15.5
85	14.8
86	14.1
87	13.4
88	12.7
89	12.0
90	11.4
91	10.8
92	10.2
93	9.6
94	9.1
95	8.6
96	8.1
97	7.6
98	7.1
99	6.7
100	6.3
101	5.9
102	5.5
103	5.2
104	4.9
105	4.5
106	4.2
107	3.9
108	3.7
109	3.4
110	3.1
111	2.9
112	2.6
113	2.4
114	2.1
115 and over	1.9

Source: IRS Regulations 1.401(a)(9)-6

I Forms Available Online Or By Calling ING

- **Payout Request Form**
- **Beneficiary Payout Request Form**
- **Direct Deposit Agreement**
- **Tax Withholding Form**
- **Designation of Beneficiary**

By Phone:
1-800-748-6128

Online:
http://stateofmi.ingplans.com

SPECIAL TAX NOTICE REGARDING
GOVERNMENTAL PLAN (OTHER THAN 457 PLAN) PAYMENTS

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

This notice is provided to you because all or part of the payment that you will soon receive from the Plan may be eligible for rollover by you or your Plan Administrator to an IRA or an eligible employer plan. A rollover is a payment by you or the Plan Administrator of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you, or in the case of Roth amounts or a Roth conversion, to obtain (or continue) tax-free investment returns. Your payment cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account (formerly known as an education IRA). Distribution of Roth amounts cannot be rolled over to any other type of IRA except a Roth IRA. An “eligible employer plan” includes a plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan).

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. Even if a plan accepts rollovers, it might not be allowed to, or may choose not to, accept rollovers of certain types of distributions, such as after-tax or Roth amounts. If this is the case, and your distribution includes after-tax or Roth amounts, you may wish instead to roll your distribution over to an IRA or split your rollover amount between the employer plan in which you will participate and an IRA. If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse's consent for any subsequent distribution. **A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from this Plan. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.**

If you have additional questions after reading this notice, you should contact your Plan Administrator.

SUMMARY

There are two ways you may be able to receive a Plan payment that is eligible for rollover:
• Certain payments can be made directly to an IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit (“DIRECT ROLLOVER”); or
• The payment can be PAID TO YOU.

If you choose a DIRECT ROLLOVER:
• You choose whether your payment will be made directly to your IRA (traditional or Roth) or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account because these are not traditional or Roth IRAs. A distribution of Roth amounts can be rolled over only to a Roth IRA or an eligible employer plan that accepts Roth amounts. A distribution of non-Roth amounts can be rolled over to an eligible employer plan, a traditional IRA or, by paying taxes on the non-Roth amounts and converting them to Roth amounts, a Roth IRA.

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

If you choose to have a Plan payment that is eligible for rollover PAID TO YOU:
• You will receive only 80% of the taxable amount of the payment, because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
• The taxable amount of your payment will be taxed in the current year 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 59 1/2, you may have to pay an additional 10% tax. A “qualified distribution” of Roth amounts will not be subject to federal income tax.
• You can roll over all or part of the payment by paying it to your 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 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 did not roll over the distribution from the Plan. Like a “qualified distribution” of Roth amounts from the Plan, a “qualified distribution” of such amounts from a Roth IRA or an eligible employer plan will not be subject to federal income tax.
• If you want to roll over 100% of the payment to an IRA or an eligible employer plan, you must find other money to replace the 20% of the taxable portion that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

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

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 his 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 an IRA or to an eligible employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account. The portion of a payment (if any) that is drawn from an after-tax contributions account can be rolled over to an IRA or to an eligible employer plan that accepts after-tax rollover contributions. The portion of a payment (if any) that is drawn from a Roth account can only be rolled over to a Roth IRA or an eligible employer plan that accepts Roth rollovers. The portion of a payment (if any) that is drawn from other types of accounts can be rolled over to an eligible employer plan, a traditional IRA, or if you make a Roth conversion, a Roth IRA. Your Plan Administrator should be able to tell you what portion of your payment is an eligible rollover distribution.

After-tax Contributions. If you made after-tax contributions to the Plan, these contributions may be rolled into either an IRA or to certain employer plans that accept rollovers of the after-tax contributions. The following rules apply:

Rollover into an IRA. You can roll over your after-tax contributions to an IRA either directly or indirectly. Your Plan Administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax portion. If you roll over after-tax contributions to an IRA, it is your responsibility to keep track of, and report to the Service on the applicable forms, the amount of these after-tax contributions. This will enable the nontaxable amount of any future distributions from the IRA to be determined. Once you roll over your after-tax contributions to an IRA, those amounts CANNOT later be rolled over to an employer plan.

Rollover into an Employer Plan. You can roll over your after-tax contributions to an eligible employer plan using a DIRECT ROLLOVER if the other plan agrees to accept the rollover and provide separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You can roll over after-tax contributions to either a qualified defined contribution or defined benefit plan under Code section 401(a) or a tax-sheltered annuity under Code section 403(b). You cannot roll over after-tax contributions to a governmental 457 plan. If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions PAID TO YOU first. You must instruct the Plan Administrator of this Plan to make a DIRECT ROLLOVER on your behalf. Also, you cannot first roll over after-tax contributions to an IRA and then roll over that amount into an employer plan.

Roth Contributions. If you made Roth contributions to the Plan or a Roth rollover to the Plan, you may be able to roll the Roth amounts into either a Roth IRA or to certain employer plans that accept rollovers of Roth amounts. The following rules apply:

Rollover into a Roth IRA. You can roll over your Roth amounts to a Roth IRA either directly or indirectly. You **cannot** roll over Roth amounts to a traditional IRA or any other type of IRA. You may establish a Roth IRA to hold a rollover of Roth amounts even if you are not eligible to contribute to a Roth IRA at this time. Once you roll over Roth amounts to a Roth IRA, those amounts **cannot** be later rolled over to an employer plan.

When you later receive a distribution from your Roth IRA, the earnings portion of the distribution from a Roth IRA is not taxable if the distribution is a "qualified distribution" from the Roth IRA. The rules for a qualified distribution from a Roth IRA are generally the same as for a qualified distribution from the Plan (as described later in this notice), except that the five-year holding period begins on the first day of the taxable year for which you or your spouse first made Roth IRA contributions or Roth conversion contributions. If you roll over Roth amounts to a Roth IRA, you **do not** receive credit towards the Roth IRA five-taxable-year holding period for the time that the rolled-over Roth amounts were held under the Plan (or any prior employer plan). The "earnings" portion of any Roth IRA distribution for determining which earnings could be taxed in the future depends on whether the distribution from the Plan was a "qualified distribution" or not (this term is described later in this notice). If you roll over a qualified distribution, the earnings portion of the Roth IRA consists only of earnings while held under the Roth IRA, and the earnings while held under the Plan are not taxable because they were previously distributed as a qualified distribution. By contrast, if you roll over a non-qualified distribution, the earnings portion of the Roth IRA also includes the earnings portion under the Plan, which will be taxed if the distribution is not a qualified distribution from the Roth IRA.

Rollover into an Employer Plan. You can roll over Roth amounts (including Roth contributions and earnings) to another qualified employer plan using a DIRECT ROLLOVER if the other plan accepts such Roth rollovers, and provides separate accounting for amounts rolled over, including separate accounting of Roth contributions and earnings on those contributions. You can roll over non-taxable Roth amounts to either an employer plan that is qualified under Code section 401(a) or a tax-sheltered annuity under Code section 403(b). If you want to roll over non-taxable Roth amounts to an employer plan that accepts these rollovers, you **must** utilize a DIRECT ROLLOVER method; you **cannot** have such amounts PAID TO YOU first.

If you receive a distribution of Roth amounts that is not a qualified distribution (this term is described later in this notice), the earnings portion of that distribution is taxable. In that case, you can have the distribution PAID TO YOU and roll over the taxable portion of the distribution using the 60-day rollover option, and your can make that rollover to any eligible employer plan that will accept this type of a rollover.

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

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

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

* The conversion eligibility rules currently are set to expire in 2010, at which point Roth conversions will be allowed without regard to income limits. For a conversion that occurs in 2010, you may be allowed to spread the tax impact over a two-year period.

Once you have made a conversion to a Roth IRA, you cannot roll over the Roth IRA into another qualified plan (even if that plan has a Roth contribution feature).

Payments That Cannot be Rolled Over. The following types of payments <u>cannot</u> be rolled over:

Payments Spread over Long Periods. You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for (1) your lifetime (or a period measured by your life expectancy), or (2) your lifetime and your beneficiary's lifetime (or a period measured by your joint life expectancies), or (3) a period of 10 years or more.

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

Hardship Distributions. A hardship distribution cannot be rolled over.

Corrective Distributions. A distribution that is 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 the 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 that cannot be rolled over.

II. DIRECT ROLLOVER

A DIRECT ROLLOVER is a direct payment of the amount of your Plan benefits to an IRA or an eligible employer plan that will accept it. You can choose a DIRECT ROLLOVER of all or any portion of your payment that is an eligible rollover distribution, as described in Part I above. If your DIRECT ROLLOVER is into a traditional IRA or an eligible employer plan, you are not taxed on any taxable portion of your payment until you later take it out of the traditional IRA or eligible employer plan. If your DIRECT ROLLOVER is into a Roth IRA, you are taxed on the taxable portion of your payment in the conversion to Roth treatment, and if the later distribution from the Roth IRA is a "qualified distribution," you are not taxed when you take it out of the Roth IRA.

In addition, no income tax withholding is required for any taxable portion of your Plan benefits for which you choose a DIRECT ROLLOVER. This Plan might not let you choose a DIRECT ROLLOVER if your distributions for the year are less than $200.

Any eligible rollover distribution that you receive from the Plan that is otherwise non-taxable, and that you wish to roll over to an eligible employer plan, can be rolled over only in a DIRECT ROLLOVER. This includes any qualified distribution (as described later in this notice) of Roth amounts or the portion of any non-qualified distribution that reflects Roth contributions.

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

DIRECT ROLLOVER to a Plan. If you are employed by a new employer that has an eligible employer plan, and you want a DIRECT ROLLOVER to that plan, ask the plan administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a DIRECT ROLLOVER to an IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the plan administrator of that plan before making your decision.

DIRECT ROLLOVER of a Series of Payments. If you receive a payment that can be rolled over to an IRA or an eligible employer plan that will accept it, and it is paid in a series of payments for less than 10 years, your choice to make or not make a DIRECT ROLLOVER for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

Change in Tax Treatment Resulting from a DIRECT ROLLOVER. The tax treatment of any payment from the eligible employer plan or traditional IRA receiving your DIRECT ROLLOVER might be different than if you received your benefit in a taxable distribution directly from the Plan. For example, if you were born before January 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 an IRA in a DIRECT ROLLOVER, your benefit will no longer be eligible for that special treatment. See the sections below entitled "Additional 10% Tax if You Are under Age 59 1/2" 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 PAID TO YOU in cash, it is subject to 20% federal income tax withholding on the taxable portion (state tax withholding may also apply). The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or an eligible employer plan that accepts rollovers (or unless you are an eligible retired public safety officer who makes the election to pay health care or long-term care premiums, described in this section below). If you do not roll it over, special tax rules may apply.

INCOME TAX WITHHOLDING

Mandatory Withholding. If any portion of your payment can be rolled over under Part I above and you do not elect to make a DIRECT ROLLOVER, the Plan is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable payment of $10,000, only $8,000 will be paid to you because the Plan must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see "Sixty-Day Rollover Option" below), you must report the full $10,000 as a taxable payment from the Plan. You must report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your payments for the year are less than $200.

Voluntary Withholding. If any portion of your payment is taxable but cannot be rolled over under Part I above, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan Administrator for the election form and related information.

Sixty-Day Rollover Option. If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to an IRA or to an eligible employer plan that accepts rollovers. If you decide to roll over, **you must contribute the amount of the payment you received to an IRA or eligible employer plan within 60 days after you receive the payment**. The portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

This sixty-day rollover option is not available for a rollover to an eligible employer plan for the non-taxable portion of any distribution of Roth amounts from the Plan, but the option is available for a rollover to a Roth IRA. A rollover of Roth amounts to an eligible employer plan can be done only by a DIRECT ROLLOVER.

You can roll over up to 100% of your payment that can be rolled over under Part I above, including an amount equal to the 20% of the taxable portion that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the traditional IRA or the eligible employer plan, to replace the 20% that was withheld. On the other hand, if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

> **Example**: The taxable portion of your payment that can be rolled over under Part I above is $10,000, and you choose to have it PAID TO YOU. You will receive $8,000, and $2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the $8,000, you may roll over the entire $10,000 to an IRA or an eligible employer plan. To do this, you roll over the $8,000 you received from the Plan, and you will have to find $2,000 from other sources (your savings, a loan, etc.). In this case, the entire $10,000 is not taxed until you take it out of the traditional IRA or an eligible employer plan. If you roll over the entire $10,000, when you file your income tax return you may get a refund of part or all of the $2,000 withheld.
>
> If, on the other hand, you roll over only $8,000, the $2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the $2,000 withheld. (However, any refund is likely to be larger if you roll over the entire $10,000.)

Additional 10% Tax If You Are under Age 59 1/2. If you receive a payment before you reach age 59 1/2 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) payments that are paid directly to the government to satisfy a federal tax levy, (5) payments that are paid to an alternate payee under a qualified domestic relations order, (6) payments that do not exceed the amount of your deductible medical expenses, or (7) payments from a governmental defined benefit pension plan to a qualified public safe official following separation from service after age 50. See IRS Form 5329 for more information on the additional 10% tax.

The additional 10% tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) from another type of eligible employer plan or IRA. Any amount rolled over from a governmental 457 plan to another type of eligible employer plan or to an IRA will become subject to the additional 10% tax if it is distributed to you before you reach age 59 1/2, unless one of the exceptions applies.

Taxation of Roth Amounts – "Qualified Distributions" and Other Distributions. If you have made Roth contributions or a Roth rollover to the Plan, and you receive those amounts in a "qualified distribution," then such amounts, including earnings while under this Plan, are not subject to federal income tax. A "qualified distribution" from the Plan generally is a distribution that is made after a five-calendar year period of participation in the Plan (or your prior employer's plan from which you made the rollover to this Plan) starting with the year in which you first made a Roth contribution, and the distribution:

- is made on or after you reach age 59½;
- is made after your death; or
- is attributable to your being disabled (within the meaning of Section 72(m) of the Code).

If the distribution from the Plan is not a qualified distribution, then the earnings portion of the distribution is included in your gross income for federal tax purposes. The actual Roth contributions you made to this Plan or a prior employer's plan are never taxed at distribution. If you do not satisfy the requirements for a distribution to be a qualified distribution (for example, if you are under age 59½), a rollover to a Roth IRA or an eligible employer plan that accepts the rollover may preserve your ability to satisfy the requirements upon a later distribution from the Roth IRA or employer plan. However, you do **not** receive credit under the Roth IRA for any period of time the Roth amounts were held under this Plan (or the plan of a prior employer) towards meeting the Roth IRA's five-calendar-year holding period when determining the tax treatment of a distribution from the Roth IRA.

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 an IRA or an eligible employer plan, the payment will be taxed in the year you receive it. However, if the payment qualifies as a "lump sum distribution," it may be eligible for special tax treatment. A lump sum distribution is a payment, within one year, of your entire balance under the Plan (and certain other similar plans of the employer) that is payable to you after you have reached age 59 1/2 or because you have separated from service with your employer (or, in the case of a self-employed individual, after you have reached age 59 1/2 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, a governmental 457 plan, or from an IRA not originally attributable to a qualified employer plan. If you have previously rolled over a distribution from this Plan (or certain other similar plans of the employer), you cannot use this special averaging treatment for later payments from the Plan. If you roll over your payment to an IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, you will not be able to use special tax treatment for later payments from that IRA, plan, or annuity. Also, if you roll over only a portion of your payment to an IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, this special tax treatment is not available for the rest of the payment. See IRS Form 4972 for additional information on lump sum distributions and how you elect the special tax treatment.

Special Election by Eligible Retired Public Safety Officers. If you are an "eligible retired public safety officer," you may make an election to exclude up to $3,000 of your otherwise taxable payment from your gross income, and not be taxed on the amount you exclude, by instead having your payment directly made to the provider of an accident or health insurance plan or a qualified long-term care insurance contract covering you, your spouse, or your dependents. All distributions are combined from all of your eligible retirement plans (section 401(a), 457(b), 403(a) and 403(b) plans) for purposes of the $3,000 limit. You are an "eligible retired public safety officer" if you separated from service as a public safety officer of the employer maintaining the plan, and your separation from service was due to your disability or attainment of normal retirement age. Contact the Plan Administrator for more information about this special election.

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 an IRA within 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. 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 an 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 an IRA or to an eligible employer plan. Thus, you have the same choices as the employee.

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

If the Plan allows a non-spouse beneficiary to make a DIRECT ROLLOVER, the rules governing inherited IRAs will govern after the rollover. Under inherited IRA rules, the beneficiary's entire interest must be distributed either by the end of the fifth calendar year after the year of the employee's death or over the life or life expectancy of the beneficiary, depending on factual circumstances. (There are detailed rules governing inherited IRAs that are beyond the scope of this summary. For the complete rules, consult IRS Publication 590, Individual Retirement Arrangements.) Like an original owner, an inherited owner generally will not owe tax on the assets in the IRA until distribution from the IRA. With respect to Roth amounts, the minimum distribution rules that apply to traditional IRAs apply to Roth IRAs in the same manner as if the Roth IRA owner died before his or her required beginning date.

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.

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, 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.

state of
michigan
401(k) & 457 PLANS