SPECIAL TAX NOTICE REGARDING TDRA DISTRIBUTIONS

Pension Fund of the Christian Church

You are receiving this notice because you are eligible to receive a payment from your 403(b) account under the Tax-Deferred Retirement Accounts of the Pension Fund of the Christian Church (Disciples of Christ) (the "TDRA") that you can transfer (roll over) to an IRA or an employer plan, or, if your payment is from a designated Roth account under the TDRA, to a Roth IRA or designated Roth account in an employer plan. This notice is intended to help you decide whether to roll over the payment (or some portion of it).

This notice describes the rollover rules that apply to payments from the TDRA. To the extent that the rules differ based on whether the payment is from a designated Roth account or from an account that is not a designated Roth account, those differences will be identified in each section of this notice. Your "designated Roth account" under the TDRA includes the Roth Contributions you elect to make from your salary, Roth Rollover Contributions you make from a designated Roth account under another employer plan, and any in-plan Roth Rollover Contributions you make by "converting" your existing Pre-Tax Contributions, Employer Contributions, and/or Rollover Contributions under the TDRA to Roth amounts.

Rules that apply to most payments from the TDRA are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

GENERAL INFORMATION ABOUT ROLLOVERS

What can I do with an amount that is eligible for rollover?

When an amount payable (that is, an amount you are eligible to take as a payment from the TDRA) is eligible for rollover, you generally may choose some combination of the following:

- Leave it in the TDRA (do not take the payment);
- Roll it over into another employer plan;
- Roll it over into an IRA or, if the payment is from a designated Roth account, a Roth IRA; or
- Take it, do not roll it over, and pay any required taxes.

Whether these options are available to you depends on your circumstances and the terms of the TDRA. For example, you may be required to take a payment (and not roll it over) based on your age or if your benefit is below a certain threshold.

How can a payment affect my taxes?

Not a Designated Roth Account:

If you do not do a rollover, you will be taxed on a payment from the TDRA and, if you are under age 59½, you will also have to pay a 10% additional tax, unless an exception applies.

Designated Roth Account:

After-tax contributions included in a payment from a designated Roth account are not taxed, but earnings might be taxed. The tax treatment of earnings included in the payment depends on whether the payment is a qualified distribution. If a payment is only part of your designated Roth account, the payment will include an allocable portion of the earnings in your designated Roth account.

If the payment from the TDRA is not a qualified distribution and you do not do a rollover to a Roth IRA or a designated Roth account in an employer plan, you will be taxed on the portion of the payment that is earnings. If you are under age 59½, a 10% additional tax on early distributions (generally, distributions made before age 59½) will also apply to the earnings, unless an exception applies.

If the payment from the TDRA is a qualified distribution, you will not be taxed on any part of the payment even if you do not do a rollover.

A qualified distribution from a designated Roth account in the TDRA is a payment made after you are age 59½ (or after your death or disability) and after you have had a designated Roth account in the TDRA for at least 5 years. In applying the 5-year rule, you count from January 1 of the year the first contribution was made to the designated Roth account. However, if you did a direct rollover to a designated Roth account in the TDRA from a designated Roth account in another employer plan, your participation will count from January 1 of the year the first contribution was made to the designated Roth account in the TDRA or, if earlier, to the designated Roth account in the other employer plan.

How can a rollover affect my taxes?

Not a Designated Roth Account:

If you do a rollover, you will not have to pay tax until you receive payments later.

Designated Roth Account:

If the payment is not a qualified distribution and you do a rollover, you will not have to pay taxes currently on the earnings and you will not have to pay taxes later on payments that are qualified distributions. If the payment is a qualified distribution and you to a rollover, you will not be taxed on the amount you roll over and any earnings on the amount you roll over will not be taxed when paid later.

What types of retirement accounts and plans may accept my rollover?

Not a Designated Roth Account:

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan (such as a section 401(k) plan), a section 403(b) plan, or a governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that receives the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs, and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan. For additional information on IRAs, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*, and IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*.

Designated Roth Account:

You may roll over the payment to either a Roth IRA (a Roth individual retirement account or Roth individual retirement annuity) or a designated Roth account in an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the Roth IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the Roth IRA or employer plan (for example, Roth IRAs cannot provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the Roth IRA or the designated Roth account in the employer plan. In general, these tax rules are similar to those described elsewhere in this notice, but differences include:

- If you do a rollover to a Roth IRA, all of your Roth IRAs will be considered for purposes of determining whether you have satisfied the 5-year rule (counting from January 1 of the year for which your first contribution was made to any of your Roth IRAs).
- If you do a rollover to a Roth IRA, you must keep track of the aggregate amount of the after-tax contributions in all of your Roth IRAs (in order to determine your taxable income for later Roth IRA payments that are not qualified distributions).
- Eligible rollover distributions from a Roth IRA can only be rolled over to another Roth IRA.

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

<u>If you do a direct rollover</u>, the TDRA will make the payment directly according to the rules below:

Not a Designated Roth account

The TDRA will make payment directly to your IRA or an employer plan. You should contact the IRA provider or the administrator of the employer plan for information on how to do a direct rollover.

Designated Roth Account:

The TDRA will make payment directly to your Roth IRA or designated Roth account in an employer plan. You should contact the Roth IRA provider or the administrator of the employer plan for information on how to do a direct rollover.

If you do a direct rollover of only a portion of the amount paid from the TDRA and a portion is paid to you at the same time, the portion directly rolled over consists first of earnings. For example, assume you are receiving a nonqualified distribution of $12,000, of which $2,000 is earnings. In this case, if you directly roll over $10,000 to an IRA that is a Roth IRA, no amount is taxable because the $10,000 amount rolled over includes the $2,000 in earnings and the remaining $2,000 paid to you is attributable to after-tax contributions.

<u>If you do a 60-day rollover</u>, you will receive a payment from the TDRA and then make a deposit according to the rules below:

Not a Designated Roth Account:

You will receive a payment from the TDRA and then make a deposit into an IRA or eligible employer plan that will accept it. Generally, you will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the TDRA is required to withhold 20% of the payment for federal income taxes (up to the amount of cash and property received). This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the amount withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional tax on early distributions if you are under age 59½ (unless an exception applies).

Designated Roth Account:

You will receive a payment from the TDRA and then make a deposit (generally within 60 days) into a Roth IRA, whether the payment is a qualified or nonqualified distribution. In addition, you can do a rollover by making a deposit within 60 days into a designated Roth account in an employer plan if the payment is a nonqualified distribution and the rollover does not exceed the amount of the earnings in the payment. You cannot do a 60-day rollover to an employer plan of any part of a qualified distribution.

If you do a 60-day rollover and the payment is not a qualified distribution, the TDRA is required to withhold 20% of the earnings for federal income taxes (up to the amount of cash and property received other than employer stock). This means that, in order to roll over the entire payment in a 60-day rollover to a Roth IRA, you must use other funds to make up for the amount withheld.

How much may I roll over?

You may roll over all or part of the amount eligible for rollover. Any payment from the TDRA is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Required minimum distributions;
- Hardship distributions; and
- Corrective distributions of contributions that exceeded tax law limitations.

Pension Fund can tell you what portion of a payment is eligible for rollover.

If I don't do a rollover, will I have to pay the 10% additional tax on distributions before age 59½?

If you are under age 59½, you will have to pay the 10% additional tax on early distributions for any payment from the TDRA (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax applies to the part of the distribution that you must include in income and is in addition to the regular income tax on the payment not rolled over. For payments from a designated Roth account, if the payment is not a qualified distribution, the part of the distribution that you must include in income is the earnings allocated to the payment.

The 10% additional tax does not apply to the following payments from the TDRA:

- Payments made after you separate from service if you are at least age 55 in the year of the separation;
- Payments that start after you separate from service if paid at least annually substantially equal amounts over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Payments made due to disability;
- Payments made after your death;
- Corrective distributions of contributions that exceed tax law limitations;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a qualified domestic relations order (QDRO);
- Payments that are qualified birth or adoption distributions;
- Payments for purposes of meeting unforeseeable or immediate financial needs relating to personal or family emergency expenses (emergency personal expense distributions);
- Payments to a victim of domestic abuse that isn't subject to the qualified joint survivor annuity or qualified preretirement survivor annuity rules (domestic abuse victim distributions);
- Payments after you receive a certification from a physician that you have a terminal illness (terminal illness distributions);
- Payments that are qualified disaster recovery distributions;
- Payments made that are qualified long-term care distributions;
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year); and
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days.

For more information about the 10% additional tax and the exceptions to the 10% additional tax, see IRS Publication 575, *Pension and Annuity Income*, under the heading *Tax on Early Distributions*. For more information on how to claim an exception, see the Instructions for IRS Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*.

If I do a rollover to an IRA (including a Roth IRA), will the 10% additional tax apply to later distributions from the IRA before age 59½?

If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional tax on early distributions on the part of the payment that you must include in income, unless an exception applies. In general, the exceptions to the 10% additional tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from the TDRA. However, there are a few differences for payments from an IRA, including:

- The exception for payments from a plan made after you separate from service if you are at least age 55 in the year of the separation does not apply;
- The exception for payments made pursuant to a QDRO under a plan does not apply to an IRA (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse); and
- The exception for substantially equal periodic payments from a plan applies to payments from an IRA but without regard to whether you have had a separation from service.

Also, there are exceptions to the 10% additional tax that do not apply to payments from a plan but that do apply to payments from an IRA, including:

- Payments for qualified higher education expenses;
- Payments up to $10,000 used in a qualified first-time home purchase; and
- Payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

For more general information about the 10% additional tax and the exceptions to the 10% additional tax on payments from an IRA, see the Instructions to IRS Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.* See also, IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs),* under the heading *Early Distributions*.

Will I owe state income taxes?

This notice does not describe any state or local income tax rules (including withholding rules).

SPECIAL RULES AND OPTIONS

If you miss the 60-day rollover deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. Under certain circumstances, you may claim eligibility for a waiver of the 60-day rollover deadline by making a written self-certification. Otherwise, to apply for a waiver from the IRS, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*, under the heading *Rollovers*.

If you receive a payment and you were born on or before January 1, 1936

If you were born on or before January 1, 1936, and receive a lump sum payment that is not a qualified distribution from a designated Roth account and that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, *Pension and Annuity Income*.

If you roll over your payment to a SIMPLE IRA or Roth SIMPLE IRA

You can only roll over a payment from the TDRA to a SIMPLE IRA plan, or, if your payment is from a designated Roth account under the TDRA, to a Roth SIMPLE IRA plan, after the end of the 2-year period beginning on the date you first participated in the SIMPLE IRA plan or Roth SIMPLE IRA plan, as applicable.

If you roll over your payment to a Roth IRA (*Not a Designated Roth Account*)

If you roll over a payment from the TDRA that is not from a designated Roth Account to a Roth IRA (which, for purposes of this explanation, include a Roth SIMPLE IRA), a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. In general, the 10% additional tax on early distributions will not apply. However, if you take the amount rolled over out of the Roth IRA within the 5-year period that begins on January 1 of the year of the rollover, the 10% additional tax will apply on the amount includible in gross income (unless an exception applies).

If you roll over a payment from the TDRA that is not from a designated Roth Account to a Roth IRA, you will not have to take required minimum distributions from the Roth IRA during your lifetime. Later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59 ½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to $10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional tax on early distributions (unless an exception applies). For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)* and IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*.

If you roll over your payment to a designated Roth account in the TDRA (*Not a Designated Roth Account*)

You cannot roll over a payment from the TDRA that is not from a designated Roth account to a designated Roth account in another employer plan. However, you can roll the payment over into a designated Roth account in the TDRA. If you roll over a non-Roth payment from the TDRA to a designated Roth account in the TDRA, the amount of the payment rolled over, reduced by any after-tax amounts directly rolled over, will be taxed. In general, the 10% additional tax on early distributions will not apply. However, if you take the amount rolled over out of the designated Roth account within the 5-year period that begins on January 1 of the year of the rollover, the 10% additional tax will apply on the amount included in gross income (unless an exception applies).

If you roll over the payment to a designated Roth account in the TDRA, you will not have to take required minimum distributions from the designated Roth account during your lifetime. Later payments from the designated Roth account that are qualified distributions will not be taxed, including earnings after the rollover. See the *Designated Roth Account* paragraphs of the section titled "How can a payment affect my taxes?" under the heading "General Information About Rollovers" above for more information on qualified distributions.

If you are not a TDRA member

Payments after death of the member. If you receive a payment after the member's death that you do not roll over, the payment generally will be taxed in the same manner described elsewhere in this notice. However, for distributions from a designated Roth account, whether the payment is a qualified distribution generally depends on when the member first made a contribution to the designated Roth account in the TDRA. Also, the 10% additional tax on early distributions does not apply, and the special rule described under the section "If you receive a payment and were born on or before January 1, 1936" applies only if the deceased member was born on or before January 1, 1936.

If you are a surviving spouse. If you receive a payment from the TDRA as the surviving spouse of a deceased member, you have the same rollover options that the member would have had, as described elsewhere in this notice.

Not a Designated Roth Account:

If you choose to do a rollover to an IRA, you may treat the IRA either as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional tax on early distributions (unless an exception applies) and required minimum distributions from your IRA will be based on your age.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional tax on early distributions. However, if the member had started taking required minimum distributions, required minimum distributions must continue to be made from the inherited IRA. If the member had not started taking required minimum distributions from the TDRA, distributions from the inherited IRA must begin when the participant would have been required to begin required minimum distributions.

Designated Roth Account:

If you choose to do a rollover to a Roth IRA, you may treat the Roth IRA either as your own or as an inherited Roth IRA.

A Roth IRA you treat as your own is treated like any other Roth IRA of yours, so that you will not have to take any required minimum distributions during your lifetime and earnings paid to you in a nonqualified distribution before you are age 59½ will be subject to the 10% additional tax on early distributions (unless an exception applies).

If you treat the Roth IRA as an inherited Roth IRA, payments from the Roth IRA will not be subject to the 10% additional tax on early distributions. An inherited Roth IRA is subject to required minimum distributions.

If you are a surviving beneficiary other than a spouse. If you receive a payment from the TDRA because of the member's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA, or, if the payment is from a designated Roth account, a direct rollover to an inherited Roth IRA. Payments from the inherited IRA, or from the inherited Roth IRA (even if made in a nonqualified distribution) will not be subject to the 10% additional tax on early distributions. You will have to take required minimum distributions from the inherited IRA or inherited Roth IRA, as applicable.

For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*, and IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs).*

Payments under a qualified domestic relations order (QDRO). If you are the spouse or former spouse of the member who receives a payment from the TDRA under a QDRO, you generally have the same options and the same tax treatment that the member would have (for example, you may roll over the payment to your own IRA, Roth IRA, or an eligible employer plan that will accept it). However, payments under the QDRO will not be subject to the 10% additional tax on early distributions.

For more information, see IRS Publication 504, *Divorced or Separated Individuals*.

If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the TDRA is generally required to withhold 30% of the payment for federal income taxes (for payments from a designated Roth account, this applies only to the portion of the payment allocated to earnings on a nonqualified distribution). If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing IRS Form 1040NR, *U.S. Nonresident Alien Income Tax Return*, and attaching your IRS Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*. See IRS Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals)*, for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, *U.S. Tax Guide for Aliens*, and IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*.

Other special rules

If a payment is one in a series of payments for less than 10 years, your choice whether to do a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than $200 (payments from designated Roth accounts and from accounts that are not designated Roth accounts are not aggregated for purposes of the $200 limit), the TDRA is not required to allow you to do a direct rollover and is not required to withhold federal income taxes. However, you may do a 60-day rollover.

You may have the ability to repay certain distributions from your retirement plan. If you took a qualified reservist distribution, a qualified disaster recovery distribution, a qualified birth or adoption distribution, an emergency personal expense distribution, a domestic abuse victim distribution, or a terminal illness distribution, you generally may repay that distribution to an eligible retirement plan within a certain time period. For more information on repayments of qualified reservist distributions, see IRS Publication 3, *Armed Forces' Tax Guide*. For more information on other repayments, see the IRS Publication 575, *Pension and Annuity Income*, or consult a professional tax advisor.

FOR MORE INFORMATION

You may wish to consult with Pension Fund or a professional tax advisor before taking a payment from the TDRA. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, *Pension and Annuity Income*; IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*; IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*; and IRS Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans)*. These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.

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