WEA Member Benefits™
Every member financially secure.

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Special Tax Notice Regarding 403(b) (TSA) Distributions

The IRS requires us to provide you with a copy of the *Explanation of Direct Rollover, Withholding, and Tax Rules Affecting TSA Account Distributions* not less than 30 days, but no more than 180 days, prior to processing your distribution.

You have at least **30 days** after receiving this notice to decide whether you want to directly roll over your distribution or have it paid to you. However, if you make a decision in less than 30 days and return the completed withdrawal form to us, we will consider that you have **waived** the 30-day-waiting period. We process allowable withdrawal requests as soon as practical after we receive your completed request form. We will contact you if the requested withdrawal is not allowable or if the form is incomplete.

If your withdrawal request is not received and processed within 180 days of the date stamped on the top of the withdrawal form, you must request another withdrawal form and begin the process again.

Please call us at 1-800-279-4030 if you have any questions.

Summary

This notice explains how you can continue to defer federal income tax on your retirement savings in your WEA Member Benefits TSA and contains important information you will need before you decide how to receive your TSA benefits. This information is being provided to you because all or part of the payment that you will soon receive from the TSA may be eligible for rollover to an IRA or an eligible employer plan. A rollover is a payment 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.

A distribution from your TSA account that is eligible for a rollover may be paid to you as cash or can be directly rolled into another tax-favored plan. Roth TSA distributions can be rolled over to another Roth TSA, Roth 401(k), or Roth IRA that will provide separate accounting for contributions and earnings on those contributions. Before-tax TSA contributions can be rolled over to a traditional IRA, SEP IRA, 457(b) plan (governmental deferred compensation only), 401(a) plan, including a profit sharing plan or a stock bonus plan, a money purchase plan, or a defined benefit plan; 401(k) plan, or to another before-tax 403(b) TSA plan; but not to a Roth IRA, Roth TSA, Roth 401(k), a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). All or a portion of any rollover paid to you as cash may be subject to 20% federal withholding.

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your distribution 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 you are required to complete before the receiving plan will accept a rollover. If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from your TSA. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

BEFORE-TAX ELECTIVE OR NONELECTIVE

If you choose a **direct rollover of before-tax elective and/or non-elective account balances:**

- Your distribution will not be taxed in the current year, and no income tax will be withheld.
- Your distribution will be paid directly to your traditional IRA or, if you choose, to another employer's plan that accepts your rollover.
- Your funds will be taxed later when you take distributions from the traditional IRA or the employer's plan. Depending upon the type of plan, the later distribution may be subject to different tax treatment than it would be if you had received a taxable distribution from your TSA account. (Example: Traditional IRAs may be subject to early distribution penalties prior to age 59½ even when you have separated from service with your employer during or after the year you reach age 55.)

If you choose to have your distribution **paid to you as cash with the option** of a 60-day rollover:

- You will receive only 80% of the distribution because we are required to withhold 20% of the distribution and send it to the Internal Revenue Service (IRS) as income tax withholding to be credited against your taxes.
- Your distribution will be taxed in the current year unless you roll it over. If you receive the distribution before age 59½, you also may have to pay an additional 10% federal penalty and a 3.3% state of Wisconsin penalty.
- You can roll over all or part of the distribution to your traditional IRA or to another employer's plan that accepts your rollover within 60 days after you receive the distribution. The amount rolled over will not be taxed until you take it out of the traditional IRA or employer's plan.
- If you want to roll over 100% of the distribution to a traditional IRA or an employer's plan, you must find other money to replace the 20% 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.

ROTH TSA

If you choose a **direct rollover** of Roth TSA account balances**:**

- Your distribution will not be taxed in the current year, and no income tax will be withheld. If your rollover is a qualified distribution, the entire amount is considered basis, which is the amount that is not subject to taxes. If your total or partial distribution is not qualified, we will report contributions and earnings proportionately to the recipient plan.
- Your distribution will be paid directly to your Roth IRA or to another Roth TSA or Roth 401(k) plan that accepts your rollover and agrees to separately account for the amount not includible in income.
- Your earnings may be taxed later if you take a nonqualified distribution from the recipient retirement plan.

- If rollover is to a Roth TSA or Roth 401(k), the new five-year taxable period becomes the earlier of the distributing plan or recipient plan.

- If rollover is to a Roth IRA, the new five-year taxable period takes on the recipient Roth IRA's qualifying period.

<u>If you choose to have your **nonqualified** Roth distribution **paid to you as cash** with the option of a 60-day rollover:</u>

- *To another Roth TSA or to a Roth 401(k):*

    - Only taxable earnings can be rolled over. Distributions that include non-taxable contributions must be accomplished through a direct rollover.

    - We are required to withhold 20% of the distributed earnings and send it to the IRS to be credited against your taxes.

    - You can roll over all or part of the taxable earnings to a Roth 401(k) or to another employer's Roth TSA plan that accepts your rollover within 60 days after you receive the distribution and that will provide separate accounting for contributions and earnings on those contributions. The amount rolled over may not be taxed unless you take it out of the recipient retirement plan as a nonqualified distribution.

    - Unless you roll it over, the taxable amount of your distribution will be taxed in the current year, and you may have to pay an additional 10% federal and 3.3% state of Wisconsin penalty.

    - If you want to roll over 100% of the taxable earnings to another plan, you must find other money to replace the federal taxes that were withheld on the taxable earnings. If you roll over only a portion of taxable earnings that you received, you will be taxed on the amount of taxable earnings that was not rolled over.

    - New five-year taxable period becomes that of the recipient plan.

- *To a Roth IRA:*

    - All or part of your account can be rolled to a Roth IRA. If only a portion is rolled over, it is treated as consisting first of taxable income.

    - We are required to withhold 20% on the distributed earnings and send it to the IRS to be credited against your taxes.

    - If you want to roll over 100% of the distribution to a Roth IRA, you must find other money to replace the 20% that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and not rolled over.

    - Unless you roll it over, the taxable amount of your distribution will be taxed in the current year, and you may have to pay an additional 10% federal and 3.3% state of Wisconsin penalty.

    - New five-year period takes on the Roth IRA qualifying period.

<u>If you choose to have your **qualified** distribution **paid to you as cash** with the option of a 60-day rollover:</u>

- Qualified distributions are not taxable and will be recorded as basis by the recipient plan.
- If rolling to a Roth TSA or Roth 401(k), new five-year taxable period becomes the earlier of the distributing plan or recipient plan.
- If rolling to a Roth IRA, new five-year period takes on the Roth IRA qualifying period.

More Information

I. Distributions That Can and Cannot Be Rolled Over

Distributions from your TSA account may be “eligible rollover distributions.” This means that they can be rolled over to certain plans that accept rollovers as explained above. We can tell you what portion of your distribution is an eligible rollover distribution if you contact us prior to requesting or receiving a plan distribution. In addition to the previously defined restrictions, the following distributions *cannot* be rolled over:

Distributions Spread Over Long Periods: You cannot roll over a distribution if it is part of a series of equal (or almost equal) distributions that are made at least once a year and that will last for: (1) your lifetime (or your life expectancy), (2) your lifetime and your beneficiary’s lifetime (or joint life expectancies), or (3) a period of ten years or more.

Required Minimum Distributions**:** Beginning in the year you reach age 70½ (if you have retired), a certain portion of your distribution cannot be rolled over because it is a “required minimum distribution” (RMD) and must be paid to you. Roth TSA accounts can avoid RMDs by rolling their account to a Roth IRA.

Hardship Withdrawals**:** You cannot roll over a hardship withdrawal. The IRS standard of “hardship” is that a withdrawal will be on account of hardship if the withdrawal is necessary in light of immediate and heavy financial needs of the employee or their beneficiary that cannot be satisfied from other reasonably available resources.

Corrective Distributions**:** A distribution that is made because legal limits on certain contributions were exceeded cannot be rolled over.

II. Rollovers of Account Balances

Direct Rollover

You can choose a direct rollover of all or any portion of your distribution that is an eligible rollover distribution as previously described. In a direct rollover, the eligible rollover distribution is paid directly from your TSA account to the appropriate type of IRA—Roth or traditional—or an employer plan that accepts rollovers. If the employer plan accepts your rollover, the plan may provide restrictions on circumstances under which you may later receive a distribution of the rollover amount. If you choose a direct rollover, you are not taxed on the distribution. Subsequent before-tax distributions, and the earnings portion of any nonqualified Roth distribution, taken later from the IRA or the employer's plan may be subject to tax. The tax treatment of any payment from a Roth or a traditional IRA or another eligible employer plan receiving your direct rollover might be different than if you received your benefit in a taxable distribution directly from your TSA.

Direct Rollover to an IRA: If eligible, you can open the appropriate type of IRA—Roth or traditional—to receive the direct rollover. If you choose to have your distribution paid directly to an IRA (Roth or traditional), contact an IRA sponsor (usually a financial institution) to find out how to have your distribution 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 distribution. However, in choosing an IRA, you may wish to consider whether the IRA you choose will allow you to move all or a part of your distribution 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 a plan and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. If your new plan does not accept a rollover, you can choose a direct rollover to the appropriate type of IRA—Roth or traditional.

Roth TSA distributions rolled over into another Roth TSA or Roth 401(k) account can be accomplished through a direct rollover of the entire distribution (a 60-day rollover to another Roth TSA or Roth 401(k) account is not available for nonqualified tax-free amounts). If the amount rolled over is a qualified distribution, the entire amount of the rollover is allocated to the investment in the contract (basis). As a result, any subsequent distribution would be tax-free. Before-tax TSA amounts may also be rolled over to the various retirement plans explained on page 1.

Direct Rollover of a Series of Distributions: 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 distribution will apply to all later distributions in a series until you change your election. You are free to change your election for any later distributions in the series.

III. Distribution Paid to You

If you have a distribution paid to you, the taxable portion is subject to 20% income tax withholding. Tax-deferred and the earnings portion of nonqualified distributions are taxed in the year you receive it unless, within 60 days, you roll it over to the appropriate type of IRA or another employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding

Mandatory Withholding: If any portion of the cash distribution to you is an eligible rollover distribution and you do not elect to make a direct rollover, we are 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 your eligible rollover distribution is $10,000, (nonqualified Roth TSA amounts are assumed to have *earnings* of $10,000 for purposes of this example) only $8,000 will be paid to you because we must withhold $2,000 as federal income tax. When you prepare your income tax return for the year, unless you make a rollover within 60 days, you will report the full $10,000 as a distribution from your TSA account. You will report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year. In a Roth TSA, only the earnings portion of a nonqualified distribution would be subject to 20% withholding. Qualified Roth TSA distributions are not subject to withholding.

Voluntary Withholding: If any portion of your distribution is not an eligible rollover distribution but is taxable, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, 10% will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, indicate such election on the relevant WEA Tax Sheltered Annuity Trust withdrawal form.

Sixty-Day Rollover Option (Indirect Rollover): If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to the appropriate IRA—Roth or traditional—or to another employer's plan that accepts rollovers. An *indirect* rollover of a nonqualified Roth TSA to another Roth TSA or a Roth 401(k) can only consist of taxable earnings. If you decide to roll over, *you must complete the rollover within 60 days after you receive the distribution*. The portion of your distribution that is rolled over will not be taxed until you take it out of the recipient plan, if taxes apply. If you roll over all or part of your Roth TSA to a Roth IRA, the portion rolled over, if nonqualified, is treated as consisting first of taxable income, and then investment. If qualified, it is considered basis.

You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the federal tax that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the recipient IRA or employer's plan to replace any amount of federal taxes withheld. If you choose to roll over only the amount you received, you may be taxed on the amount 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 withholding (nonqualified Roth TSA amounts are assumed to have *earnings* of $10,000 for purposes of this example). Within 60 days after receiving the $8,000, you may roll over the entire $10,000 to the appropriate type of plan indicated on page 1. To do this, you roll over the $8,000 you received from your TSA account, and you will have to find $2,000 from other sources (your savings, a loan, etc.). The entire $10,000 is not taxed until you take it out of the recipient plan, if applicable. 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. Regardless of which of these two scenarios you choose, you will receive credit for the $2,000 withheld when you file your income tax return. Qualified Roth TSA distributions are not taxable.

Additional Taxes if You Are Under Age 59½: If you receive a distribution before you reach age 59½ and you do not roll it over, in addition to the applicable federal and state income tax, you may have to pay a federal penalty equal to 10% of the taxable amount. (Wisconsin residents may be subject to an additional 3.3% penalty). The additional penalties do not apply to your distribution if it is: (1) paid to you because you separate from service with your employer during or after the year you reach age 55 (not applicable to Roth TSAs), (2) a Roth TSA distribution that is qualified or the portion that consists of contributions, (3) paid because you retire due to total and permanent disability (Roth TSAs require accounts to have been held for five years), (4) paid to you as equal (or almost equal) distributions over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (5) a payment that does not exceed the amount of your deductible medical expenses, (6) payments that are paid directly to the government to satisfy a federal tax levy, or (7) payments that are paid to an alternate payee under a qualified domestic relations order. See IRS Form 5329 for more information on the additional 10% federal penalty.

IV. Surviving Spouses, Alternate Payees, and Other Beneficiaries

In general, most rules summarized above that apply to distributions to employees also apply to distributions to surviving spouses of employees, non-spousal beneficiaries, and to spouses or former spouses who are alternate payees. You are an alternate payee if your interest in a TSA account 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 summarized above also apply to a deceased employee's beneficiary who is not their spouse. However, there are some exceptions for distributions to surviving spouses, alternate payees, and other beneficiaries that should be mentioned.

If you are a surviving spouse or alternate payee, you have the same choices as an employee. You may choose to have an eligible rollover distribution paid in a direct rollover to the appropriate IRA—Roth or Traditional, to another employer plan that accepts rollovers, or to you. If you have the distribution paid to you, you have the option to roll it over within 60 days—refer to Section III.

If you are a beneficiary other than the surviving spouse, you may roll over your inherited TSA account to an inherited IRA only. If you are an alternate payee, you cannot choose a direct rollover and you cannot rollover the distribution yourself. If you are a beneficiary other than a surviving spouse or an alternate payee, such as a child or domestic partner, you may choose to have a payment that can be rolled over, paid in a direct rollover to a Traditional IRA, or paid to you. You may not roll over the payment to yourself or to an eligible employer plan. The IRA accepting the transfer is treated like a non-spouse inherited IRA, under which benefits must be distributed in accordance with the applicable required minimum distribution rules. In general, distributions from the rollover IRA must either be paid to you in full within five years of the employee's death or must commence within twelve months of the employee's death over your life expectancy. The benefits cannot be rolled over again from the rollover IRA.

If you are a surviving spouse, an alternate payee, or another beneficiary of a before-tax TSA or qualified Roth TSA, the distribution paid to you is not subject to the additional 10% penalty described in Section III, even if you are younger than age 59½. If the distribution is rolled over to an IRA—Roth or Traditional—or another employer plan, the additional 10% penalty may apply. The 10% penalty may also apply to non-qualified distributions whether or not it is rolled over.

V. How to Obtain Additional Information

This notice summarizes only the federal (not state or local) tax rules that might apply to your distribution. 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 distribution of your benefits from your TSA account. Also, you can find more specific information on the tax treatment of distributions from TSA plans in IRS Publication 571, *Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations;* 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-FORM.