Special Tax Notice Regarding AHRP Plan Payments

This notice contains important information you will need before you decide how to receive your benefit payments from the Adventist HealthCare Retirement Plan ("AHRP"). When requesting a distribution or withdrawal from AHRP, it is important that you review all of your options **before** you make your distribution or withdrawal election. Please read this entire notice before making your election.

This notice only summarizes federal income tax rules. In some states, different income tax rules may apply. This notice does not summarize state and local income tax rules.

The chart below summarizes some of the key points which are discussed in more detail in the remainder of the notice. The chart does not summarize all points, such as the 10% federal excise tax that applies to some distributions and withdrawals. The chart does not summarize special rules, such as: payments made after attaining age 70-1/2; and the fact that a person who is not the spouse of the AHRP participant and who is receiving payments as a beneficiary or pursuant to a qualified domestic relations order cannot elect a rollover.

Summary of Federal Income Taxation of Your AHRP Distribution/Withdrawal

Your Choices	Will 20% Be Withheld for Federal Income Taxes?	Will the Amount Paid from AHRP Be Subject to Federal Income Tax in the Year You Receive the Check?
• **Direct Rollover to IRA** (check payable to IRA)	No	No
• **Direct Rollover to Eligible Plan** (check payable to eligible plan)	No	No
• **Cash Distribution** (check payable to you) **Payment Rolled Over Within 60 Days to IRA**	Yes	No—for portion rolled over Yes—for portion not rolled over (including 20% withheld)
• **Cash Distribution** (check payable to you) **Payment Rolled Over Within 60 Days to Eligible Plan**	Yes	No—for portion rolled over Yes—for portion not rolled over (including 20% withheld)
• **Cash Distribution** (check payable to you) **Not Rolled Over to IRA or Eligible Plan**	Yes	Yes

Summary

A payment from AHRP that is eligible for "rollover" can be taken in two ways. You can have **all or any portion** of your payment either **1) paid in a "direct rollover" or 2) paid to you.** A rollover is a payment of your AHRP benefits to your individual retirement arrangement (IRA) or to another employer plan. This choice will affect the tax you owe.

If you choose a *Direct Rollover*

- Your payment will not be taxed in the current year and no income tax will be withheld.
- Your payment will be made directly to your IRA or, if you choose, to another employer plan that accepts your rollover.
- Your payment will be taxed later when you take it out of the IRA or the employer plan.

If you choose to have your AHRP benefits *Paid to You*

- You will receive only 80% of the payment, because AHRP's administrator is required to withhold 20% of the payment and send it to the IRS as income tax withholding to be credited against your taxes.
- Your payment will be taxed in the current year unless you roll it over. 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 also may have to pay an additional 10% tax.
- You can roll over the payment by paying it to your IRA or to another employer plan that accepts your rollover within 60 days of receiving the payment. The amount rolled over will not be taxed until you take it out of the IRA or employer plan.
- If you want to roll over 100% of the payment to an IRA or an employer plan, **you must find other money to replace the 20% that was withheld.** If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

I. Payments That Can and Cannot Be Rolled Over

Payments from AHRP may be "eligible rollover distributions." This means that they can be rolled over to an IRA or to another employer plan that accepts rollovers. The local AHRP administrator should be able to tell you what portion of your payment is an eligible rollover distribution. Generally all payments from AHRP are eligible rollover distributions. However, the following types of payments to employees **cannot** be rolled over:

Hardship Withdrawal of Your Before-Tax Contributions. You cannot roll over the portion of hardship withdrawal that is attributable to your before-tax contributions. Any other portion of your hardship withdrawal is eligible to be rolled over to an IRA or to another employer plan that accepts rollovers. (However, AHRP requires that you certify that any portion of the hardship withdrawal that you directly roll over will be immediately applied to meet your hardship.)

Required Minimum Payments. Beginning in the year 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.

Also, Section IV below summarizes when payments to persons other than an employee are eligible rollover distributions.

II. Direct Rollover

You can choose a direct rollover of all or any portion of your payment that is an "eligible rollover distribution," as described above. In a direct rollover, the eligible rollover distribution is paid directly from AHRP to an IRA or another employer plan that accepts rollovers. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or the employer plan.

Direct Rollover to an IRA. You can open an IRA to receive the direct rollover. (The term "IRA," as used in this notice, includes individual retirement accounts and individual retirement annuities.) 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 consider whether 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 a plan, and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. An employer plan is not legally required to accept a rollover. If your new employer's plan does not accept a rollover, you can choose a direct rollover to an IRA.

Technically, AHRP consists of two plans. The plan that holds your salary reduction contributions is the Adventist HealthCare Retirement Plan—TSA Plan (the "AHRP-TSA Plan"). The AHRP-TSA Plan is a "section 403(b)" plan, which is sometimes referred to as a "tax-sheltered annuity." The plan that holds your employer's contributions is the Adventist HealthCare Retirement Plan—Qualified Plan (the "AHRP-Qualified Plan"). The AHRP-Qualified Plan is a "section 401(a)" plan, which is sometimes referred to as a "qualified plan."

If payments from the AHRP-TSA Plan are rolled over to an employer plan, that plan must be a section 403(b) plan. Payments from the AHRP-TSA Plan cannot be rolled over to a section 401(a) plan. Similarly, if payments from the AHRP-Qualified Plan are rolled over to an employer plan, that plan must be a section 401(a) plan. Payments from the AHRP-Qualified Plan cannot be rolled over to a section 403(b) plan. Before selecting a plan to receive a direct rollover, you should ask the plan sponsor whether the plan is a section 403(b) or a section 401(a) plan. Then you can determine which AHRP payments may be directly rolled over to that plan.

III. Payment Paid to You

If you have the payment made to you, it is subject to 20% income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another 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 payment to you is an eligible rollover distribution, AHRP is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if your eligible rollover distribution is $10,000, only $8,000 will be paid to you because AHRP must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, you will report the full $10,000 as a payment from AHRP. You will report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

Voluntary Withholding. If any portion of your payment 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. To elect out of withholding, ask the AHRP administrator for the election form and related information.

Option for 60-Day Rollover. If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to an IRA or another employer plan that accepts rollovers. If you decide to roll over, **you must make the rollover 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 IRA or the employer plan.

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

Example: Your eligible rollover distribution is $10,000, and you choose to have it paid to you. You will receive $8,000, and $2,000 will be sent to the IRS as income tax withholding. Within 60-days after receiving the $8,000, you may roll over the entire $10,000 to an IRA or employer plan. To do this, you roll over the $8,000 you received from AHRP, 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 IRA or employer plan. If you roll over the entire $10,000, when you file your income tax return you may get a refund 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.)

When making a 60-day rollover, the same rule applies as to the type of plan which can receive the 60-day rollover. Payments you receive from the AHRP-TSA Plan may only be rolled over to a section 403(b) plan. Payments you receive from the AHRP-Qualified Plan may only be rolled over to a section 401(a) plan.

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 does not apply to your payment if it is (1) paid to you because you separate from service with your employer during or after the year you reach age 55, (2) paid because you retire due to disability, or (3) used to pay certain medical expenses. See IRS Form 5329 for more information on the additional 10% tax.

Special Tax Treatment. If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. However, if it qualifies as a "lump sum distribution," it may be eligible for special tax treatment. Only payments from the AHRP-Qualified Plan are eligible for this special tax treatment. Payments from the AHRP-TSA Plan are not eligible for this special tax treatment.

A lump sum distribution is a payment, within one year, of your entire balance under the AHRP-Qualified Plan (and certain other similar section 401(a) plans of the employer) that is payable to you because you have reached aged 59-1/2 or have separated from service with your employer (or, in the case of a self-employed individual, because you have reached age 59-1/2 or have become disabled). For a payment to qualify as a lump sum distribution, you must have been a participant in the AHRP-Qualified Plan for at least five years. The special tax treatment for lump sum distributions is described below:

Five-Year Averaging. If you receive a lump sum distribution after you are age 59-1/2, you may be able to make a one-time election to figure the tax on the payment by using "five-year averaging." Five-year averaging often reduces the tax you owe because it treats the payment much as if it were paid over five years. Please note: five-year averaging will no longer be available for distributions made on or after January 1, 2000.

Ten-Year Averaging if You Were Born Before January 1, 1936. If you receive a lump sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "ten-year averaging" (using 1986 tax rates) instead of five-year averaging (using current tax rates). Like the five-year averaging rules, ten-year averaging often reduces the tax you owe.

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. If you have previously rolled over a payment from the AHRP-Qualified Plan (or certain other similar section 401(a) plans of the employer), you cannot use this special tax treatment for later payments from the AHRP-Qualified Plan. If you roll over your payment to an IRA, you will not be able to use this special tax treatment for later payments from the IRA. Also, if you roll over only a portion of your payment to an IRA, this special tax treatment is not available for the rest of the payment. Additional restrictions are described in IRS Form 4972, which has more information on lump sum distributions and how you elect the special tax treatment.

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 AHRP 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 a spouse. However, there are some exceptions for payments to surviving spouses, alternate payees, and other beneficiaries that should be mentioned.

If you are a surviving spouse, you may choose to have an eligible rollover distribution paid in a direct rollover to an IRA or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to an IRA but you cannot roll it over to an employer plan. If you are an alternate payee, you have the same choices as the employee. Thus, you can have the payment paid as a direct rollover or paid to you. If you have it paid to you, you can keep it or roll it over yourself to an IRA or to another employer plan that accepts rollovers. (The same rules apply as described above as to the type of plan that can accept a rollover from the AHRP-TSA Plan and a rollover from the AHRP-Qualified Plan.) If you are a beneficiary other than the surviving spouse, you **cannot** choose a direct rollover, and you **cannot** roll over the payment yourself.

If you are a a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10% tax described in section 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. If you receive a payment because of the employee's death, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had five years of participation in the AHRP-Qualified 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 a professional tax advisor **before** you take a payment of your benefits from AHRP. Also, you can find more specific information on the tax treatment of payments in the following IRS publications. These publications are available from your local IRS office or by calling 1-800-TAX-FORMS.

- For information on payments from section 401(a) qualified retirement plans such as the AHRP-Qualified Plan, there is IRS Publication 575, **Pension and Annuity Income.**
- For information on payments from section 403(b) tax-sheltered annuities such as the AHRP-TSA Plan, there is IRS Publication 571, **Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations.**
- For information on IRAs, there is IRS Publication 590, **Individual Retirement Arrangements.**