

**THE NERLAND AGENCY TAX-DEFERRED SAVINGS PLAN  
TERMINATED PARTICIPANT  
DISTRIBUTION ELECTION FORM**

**I Participant Information**

Participant Name: \_\_\_\_\_ Social Security Number: \_\_\_\_\_  
Street Address: \_\_\_\_\_ Date of Birth: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Date of Hire: \_\_\_\_\_  
City: \_\_\_\_\_ Date of Termination: \_\_\_\_\_  
Daytime Phone Number: \_\_\_\_\_  
State: \_\_\_\_\_ Zip: \_\_\_\_\_ Email Address (Optional): \_\_\_\_\_

**II Distribution Election**

**Before making your election below, read the attached *Special Tax Notice Regarding Plan Payments and State Tax Withholding Information*. The election you make will have both financial and federal and state (if applicable) income tax consequences. Please consult with your tax and financial advisor if necessary.**

- Direct Rollover.** I elect to roll over 100% of my eligible rollover distribution directly to:  **a Traditional Individual Retirement Account (IRA)** or  **an Employer's Qualified Retirement Plan.** (Please be sure that either an IRA has been set up or confirm that your new employer's plan will accept the rollover, then complete the rollover information in the "Payment Instructions" section on Page 2.) **To roll your distribution to a Roth IRA, you must check here:**  (Tax withholding is not mandatory for rollovers to Roth IRAs. You may elect to have taxes withheld in Section IV.)
- Lump Sum Cash Payment.** I elect a lump sum cash payment of my eligible rollover distribution to me. I understand that my payment will be subject to mandatory 20% federal income tax withholding and may be subject to state income tax withholding unless I elect not to have state income taxes withheld. (Please refer to the attached *State Tax Withholding Information*. You may request additional federal income tax withholding and elect your state income tax withholding in Section IV.)
- Split Cash/Rollover Payment.** I elect a cash payment of \$ \_\_\_\_\_ or \_\_\_\_\_% of my eligible rollover distribution to me and a rollover of the remaining balance to:  **a Traditional Individual Retirement Account (IRA)** or  **an Employer's Qualified Retirement Plan.** (Please be sure that either an IRA has been set up or confirm that your new employer's plan will accept the rollover, then complete the rollover information in the "Payment Instructions" section on Page 2.) I understand that my cash payment will be subject to mandatory 20% federal income tax withholding and may be subject to state income tax withholding unless I elect not to have state income taxes withheld. (Please refer to the attached *State Tax Withholding Information*. You may request additional federal income tax withholding and elect your state income tax withholding in Section IV.) **To roll your distribution to a Roth IRA, you must check here:**  (Tax withholding is not mandatory for rollovers to Roth IRAs. You may elect to have taxes withheld in Section IV.)
- Annuity Distribution.** Your vested account balance must exceed \$1,000 to elect one of the following distribution methods. See the *Explanation of Qualified Joint & Survivor Annuity* for further explanation of this form of benefit.
- Joint and Survivor Annuity.** Please pay my benefit to me as a monthly annuity for the life of my spouse and me. My spouse's date of birth is: \_\_\_\_\_.
- Life Annuity.** Please pay my benefit to me as a monthly annuity for my life.
- Installments.** I elect to receive my distribution in the form of equal installments over a designated period of time not to exceed my life expectancy. (You must complete the *Installment Election Supplement* to this form if you choose this option).

**III Loan Information**

- N/A, I do not have an Outstanding Loan from the Retirement Plan
- I will NOT be paying off my loan.** I understand my Outstanding Loan balance will be considered a distribution and that I will be responsible for the associated taxes and penalties.
- I would like to PAY OFF my Outstanding Loan.** (For assistance with loan payoff information please contact Northwest Plan Services at (206) 933-1500. Your funds will not be distributed until the loan payoff is complete.)

If you have an Outstanding Loan and you do not select one of the options above, your Outstanding Loan balance will be considered a distribution. You will be responsible for any additional associated taxes and penalties due upon filing your Income Tax Returns.

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**IV Tax Withholding Instructions** (for Lump Sum Cash Payment and/or conversion to Roth IRA )

- Federal Income Taxes:** In addition to the 20% mandatory income tax withholding on my cash payment, or 0% on my Roth conversion, please withhold an extra \$ \_\_\_\_\_ or \_\_\_\_\_% for Federal Income Tax.
- State Income Taxes:** I have read the attached *State Tax Withholding Information* and understand that withholding state income taxes from my taxable distribution is mandatory in certain states.
- I elect to have State Income Taxes withheld from my distribution at a rate of \_\_\_\_\_%.
- I elect **not** to have State Income Taxes withheld from my distribution.

**V Payment Instructions**

- Select Method of Delivery:**     **Send a Check via Regular Mail**  
 **ACH Transfer** (provide electronic transfer instructions below)

**For Regular Mail delivery, indicate where you would like your check sent:**

- My home address shown at the beginning of this form     An alternate address shown below  
 Directly to a Financial Institution or Qualified Retirement Plan (see address below)

<b>Mailing Instructions</b>	<b>ACH Instructions</b>
<p><b><u>Rollover Institution Address</u></b>  <input type="checkbox"/> IRA or <input type="checkbox"/> Employer's Qualified Retirement Plan</p> <hr/> <p>Name of Financial Institution or Retirement Plan and Account #</p> <hr/> <p>Street Address</p> <hr/> <p>City, State Zip</p> <hr/> <p>Phone Number</p> <p align="center"><b><u>Alternate Mailing Address</u></b></p> <hr/> <p>Name</p> <hr/> <p>Name of Business at Address</p> <hr/> <p>Street Address</p> <hr/> <p>City, State Zip</p>	<p><b>Please contact a representative at the financial institution where you are depositing your funds to obtain the numbers requested below.</b></p> <hr/> <p>Name of Financial Institution or Retirement Plan (for Rollovers only)</p> <hr/> <p>Name of Bank Receiving ACH</p> <hr/> <p>Bank Account Number</p> <hr/> <p>ABA Routing Number (this is a nine-digit number)</p> <hr/> <p>Account Type:   <input type="checkbox"/> Checking    <input type="checkbox"/> Savings</p> <hr/> <p>FFC (For Rollovers only - your or your Plan's account number at the financial institution)</p> <hr/> <p><b>If you elected to receive your funds via an ACH transfer, please make sure that all of the above items are complete and correct. Incomplete or inaccurate information will significantly delay your distribution.</b></p>

**VI Marital Status and Spouse's Consent**

**MARITAL STATUS** (check one)

- I am **not** currently married.
- I am currently married (if your Vested Plan Benefit is greater than \$1,000, your spouse must complete the Spouse Consent/Witness section on the next page.)

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***SPOUSE CONSENT/WITNESS***

*Required if the total vested benefit exceeds \$1,000. The spouse's signature must be notarized.*

I (printed name of spouse) \_\_\_\_\_, the Participant's spouse, hereby consent to the foregoing election by my spouse for a withdrawal of all or a portion of his/her vested Plan benefit and to the waiver of the Qualified Joint & Survivor Annuity (including the Qualified Optional Survivor Annuity) form of payment. I understand that this withdrawal will reduce the amount of benefit to which my spouse and I will be entitled to at retirement.

I have received a written explanation and understand 1) the terms of the Qualified Joint & Survivor Annuity (including the Qualified Optional Survivor Annuity), 2) my right not to consent to this waiver election, 3) the election period, and 4) the financial effect of the election not to receive benefits in the form of a Qualified Joint & Survivor Annuity (including the Qualified Optional Survivor Annuity). I understand that my consent is irrevocable unless my spouse revokes the foregoing election and that any change in the form of benefit election is subject to my consent, unless my spouse elects to receive the Qualified Joint & Survivor Annuity (including the Qualified Optional Survivor Annuity).

\_\_\_\_\_  
Signature of Participant's Spouse (must be notarized)

\_\_\_\_\_  
Date

**NOTARY PUBLIC:**

State of \_\_\_\_\_)

County of \_\_\_\_\_)

On the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ before me came \_\_\_\_\_ to be known and known to me to be the person described in and who executed the above statement and (s)he duly acknowledged to me that (s)he executed same.

\_\_\_\_\_  
Notary Public

My license expires on: \_\_\_\_\_

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**VII Participant Authorization and Distribution Acknowledgment**

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I understand the terms and conditions relating to the payment of benefits from the Plan as explained in the *Special Tax Notice Regarding Plan Payments*. I certify that the information I have provided above is true and correct to the best of my knowledge. I understand that the trustee of the Plan will rely on this information in making the distribution that I have requested. I hereby consent to payment of my vested account balance as indicated on this form. I understand that The Nerland Agency reserves the right to directly, or through its Third Party Administrator, recover any payments made in excess of amounts to which I am entitled under the terms of the Plan, regardless of the method of payment. Furthermore, I by signing below, I elect to waive my 30-Day Election Period.

X

\_\_\_\_\_  
Signature of Participant

\_\_\_\_\_  
Date

*Please return your completed Distribution Election Form to:*

**Northwest Plan Services, Inc.  
5446 California Ave SW, Ste 200  
Seattle, WA 98136-1513**

# THE NERLAND AGENCY TAX-DEFERRED SAVINGS PLAN INSTALLMENT ELECTION SUPPLEMENT

## EXPLANATION OF EQUAL INSTALLMENTS PAYMENT OPTION

You may choose to receive your distribution from the plan in installments. This option is only available if your vested balance is over \$1,000 at the time of payment. If you choose to be paid over a period of 10 years or more, the payments will not be eligible for rollover. If the payments are made over a period of less than 10 years, the payments would generally be eligible for rollover.

If the payments are over a period of 10 years or more, the checks will be made payable directly to you and the Plan Administrator will send you a form for you to indicate the amount of federal income tax withholding on your payments.

If the payments are over a period of less than 10 years, there are two choices for how the installment payments can be made. You may have the checks made payable directly to you or you may have the checks made payable to your IRA or another employer retirement plan (\$200 minimum). If some or all of your benefits are paid directly to you, 20% of that amount must be withheld for federal income tax purposes. You should read the *Special Tax Notice Regarding Plan Payments* before making your decision.

### I Participant Information

Participant Name: \_\_\_\_\_ Social Security Number: \_\_\_\_\_

### II Installment Election Please Choose one distribution option below.

I elect to receive:

- My entire Vested Account Balance in regular installments over a fixed period of time as elected in Section III and paid to me as directed in Section IV.
- \$ \_\_\_\_\_ in a taxable lump sum, with the rest of my Vested Account Balance in installments as elected in Section III and paid to me as directed in Section IV.
- \$ \_\_\_\_\_ as a rollover to an IRA or other qualified plan as indicated on the *Distribution Election Form*, with the rest of my Vested Account Balance in installments, as elected in Section III and paid to me as directed in Section IV.

### III Installment Payment Frequency and Term Please choose a payment frequency and installment term.

I request payment of installments (Choose one option below)

- Monthly     Quarterly     Annually

I elect the following installment term Choose (1) or (2)

- (1) \_\_\_\_\_ years.
- (2) My life expectancy, as determined under Treasury regulations (Choose A or B)
  - A. Determining my life expectancy once, when I commence distribution.
  - B. Recalculating my life expectancy each year.

### IV Payment Direction

- I elect to receive my installment payments paid directly to me as taxable income.

*Note: If the term of your installment payments is less than ten years, your payments will be subject to 20% mandatory federal income tax withholding and may be subject to state income tax withholding. You may increase your federal income tax withholding and elect your state income tax withholding on the Distribution Election Form. If your installment term is ten years or more, you must request a Form W-4P to choose your federal income tax withholding. Please provide payment delivery instructions on page two of the Distribution Election Form.*

- I elect to roll my installment payments into an IRA or other employer's plan.

*Note: The term of your installment payments must be less than ten years for this election to be valid. You must provide the name, address, and account number of the financial institution accepting your rollover installment payments on page two of the Distribution Election Form.*

### V Participant Installment Distribution Acknowledgment

Participant's Signature : \_\_\_\_\_ Date: \_\_\_\_\_

**Note:** You must make tax withholding elections for taxable installment payments (or form W-4P for installments paid over ten or more years) and provide payment delivery instructions on the Distribution Election Form.

**You must attach this Form to the Distribution Election Form and forward it to Northwest Plan Services, Inc. for processing.**

# THE NERLAND AGENCY TAX-DEFERRED SAVINGS PLAN

## EXPLANATION OF QUALIFIED JOINT & SURVIVOR ANNUITY

By law, the Plan will pay your vested Plan benefit as an annuity when you reach the Plan's Normal Retirement Age unless you elect to receive a different type of payment. The annuity the Plan provides to a married participant is a "Qualified Joint & Survivor Annuity." The annuity the Plan provides to an unmarried participant is a "Qualified Life Annuity." The Plan provides other types of payments, which you may choose by waiving whichever Qualified Annuity applies to you.

A *Qualified Joint & Survivor Annuity* form of payment provides you with a monthly payment for your life. After your death, your spouse will continue to receive a payment for his life equal to a percentage (from 50% to 100% depending on the provisions of the Plan – refer to the Plan's Summary Plan Description for detail) of the monthly payment paid prior to your death. All payments stop when neither you nor your spouse is alive. This type of annuity is also known as a "joint & survivor annuity." The same form of benefit may be purchased for a non-spouse beneficiary (see "Waiving the Qualified Annuity Which Applies to You," below). Note that providing the choice of more than one survivor percentage constitutes a *Qualified Optional Survivor Annuity*.

A *Qualified Life Annuity* provides you with a monthly payment for your life. After your death, all payments will stop. This type of annuity is also known as a "single life annuity."

A *Lump Sum Cash Payment*: The "lump sum" value at any given time of your vested Plan benefit is the market value of all your vested accounts. The Lump Sum Cash Payment represents payment in full of all your benefits under the plan. Please be aware of the following special considerations for Lump Sum Cash Payment distributions:

1. The lump sum distribution is a single payment in lieu of any and all Plan benefits.
2. There is no survivor benefit with the lump sum distribution because you get your entire pension entitlement at one time.
3. Your decision to take a lump sum distribution may not be reversed at any time following payment.
4. Income and estate taxes will probably be affected by your decision.
5. You may roll any or all of your lump sum distribution to an IRA or another employer's plan. Please see the enclosed

"Special Tax Notice" regarding the Direct Rollover of a lump sum payment.

### HOW YOUR VESTED PLAN BENEFIT IS CONVERTED TO AN ANNUITY

*If you choose to receive your vested Plan benefit as an annuity, the Trustees will select a life insurance company to provide an annuity benefit. The Trustees of the Plan will then show you a binding offer from the life insurance company to provide the type of annuity you choose. In this offer, the insurance company will provide an annuity in exchange for a cash payment equal to your vested Plan benefit. You may then accept or deny the insurance company's offer, or change your election. You cannot change your election, once the Plan has purchased an annuity that you have approved.*

### ILLUSTRATIONS OF ANNUITIES AT AGE 65

There is no way of knowing what life annuities your current vested Plan benefit may provide, because the monthly benefit provided by an annuity carrier will depend upon the future value of your accounts, and the ages of you and your beneficiary when you retire. In estimating your benefits below, the Plan assumed a spouse of approximately your same age at retirement, and an investment return of 5%.

**ILLUSTRATION OF A QUALIFIED JOINT SURVIVOR ANNUITY:** If paid at age 65 in the form of a joint and 50% survivor annuity, you will receive monthly payments for your life and, upon your death, your spouse will continue to receive half the monthly payment you were receiving. The joint and 50% survivor annuity is less than the Qualified Life Annuity payable at age 65. You can choose an optional survivor percentage of 75% (*Qualified Optional Survivor Annuity*), for example, in exchange for a reduced initial monthly benefit (see the Comparison of Annuities illustration below).

**ILLUSTRATION OF A QUALIFIED LIFE ANNUITY:** If paid at age 65 in the form of a Qualified Life annuity, you will receive monthly payments for your lifetime only. There are no further payments after your death.

### Illustration Comparison of Annuities Expected Monthly Benefits from \$10,000 Account Value at Age 65 (Assuming 5% Interest & Age 65 Beneficiary)

	Estimated Monthly Benefit at Age 65	Estimated Survivor's Monthly Benefit	Relative Value
Qualified Life Annuity	\$69.56	N/A	Approximately the same value as the \$10,000 lump sum
Qualified Joint & 50% Survivor Annuity	\$64.11	\$32.05	Approximately the same value as the \$10,000 lump sum
Qualified Joint & Optional 75% Survivor Annuity	\$61.69	\$46.27	Approximately the same value as the \$10,000 lump sum

These relative value estimates were determined using RP-2000 Unisex Mortality projected to 2008 using IRS lump sum methodology, a 5.0% interest rate, and assuming average life expectancies. The ultimate value of payments received under an annuity option will depend on actual longevity.

### WAIVING THE QUALIFIED ANNUITY THAT APPLIES TO YOU

You may elect in writing *not* to receive your benefits in the form of a Qualified Joint & Survivor annuity (Qualified Life annuity, if you are not married). You must make this election during the 180 day period before your benefits are due to be paid. However, your spouse must consent to your election in writing before a notary public. You may also revoke this election before your benefits begin; however, *you may not revoke or change your election once benefits have begun to be paid to you, or the Plan has purchased an annuity on your behalf. Note that a selection of a form of benefit other than a Qualified Joint & Survivor annuity (including the Qualified Optional Survivor Annuity), as consented to by your spouse, or a Qualified Life annuity, if you are not married, constitutes a waiver of the qualified annuity form of benefit.*

# THE NERLAND AGENCY TAX-DEFERRED SAVINGS PLAN

## SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

### *SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS*

#### **YOUR ROLLOVER OPTIONS**

You are receiving this notice because all or a portion of a payment you are receiving from the **The Nerland Agency Tax-Deferred Savings Plan** (the “Plan”) is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover. This notice describes the rollover rules that apply to payments from the Plan that are not from a designated Roth account (a type of account with special tax rules in some employer plans). If you also receive a payment from a designated Roth account in the Plan, you will be provided a different notice for that payment, and the Plan administrator or the payor will tell you the amount that is being paid from each account. Rules that apply to most payments from a plan 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**

##### **How can a rollover affect my taxes?**

You will be taxed on a payment from the Plan if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

##### **Where may I roll over the payment?**

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, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds 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.

##### **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. If you do a direct rollover, the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover. If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the payment 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, you must use other funds to make up for the 20% 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 income tax on early distributions if you are under age 59½ (unless an exception applies).

##### **How much may I roll over?**

If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan 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 lives or joint life expectancy of you and your beneficiary)

- Required minimum distributions after age 70½ (or after death)
- Hardship distributions
- ESOP dividends
- Corrective distributions of contributions that exceed tax law limitations
- Loans treated as deemed distributions (for example, loans in default due to missed payments before your employment ends)
- Cost of life insurance paid by the Plan
- Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment
- Amounts treated as distributed because of a prohibited allocation of S corporation stock under an ESOP (also, there will generally be adverse tax consequences if you roll over a distribution of S corporation stock to an IRA). The Plan administrator or the payor 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 income tax on early distributions?**

If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over.

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

- Payments made after you separate from service if you will be at least age 55 in the year of the separation
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Payments from a governmental defined benefit pension plan made after you separate from service if you are a public safety employee and you are at least age 50 in the year of the separation
- Payments made due to disability
- Payments after your death
- Payments of ESOP dividends
- Corrective distributions of contributions that exceed tax law limitations
- Cost of life insurance paid by the Plan
- Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment
- Payments made directly to the government to satisfy a federal tax levy
- Payments made under a qualified domestic relations order (QDRO)
- Payments up to the amount of your deductible medical expenses
- 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
- Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.

##### **If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?**

If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions

# THE NERLAND AGENCY TAX-DEFERRED SAVINGS PLAN

## SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- There is no exception for payments after separation from service that are made after age 55.
- The exception for qualified domestic relations orders (QDROs) does not apply (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).
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to \$10,000 used in a qualified first-time home purchase, and (3) payments after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

### **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 your payment includes after-tax contributions**

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment. If you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a payment.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). If you do a direct rollover of only a portion of the amount paid from the Plan and a portion is paid to you, each of the payments will include an allocable portion of the after-tax contributions. If you do a 60-day rollover to an IRA of only a portion of the payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit which totals \$12,000, of which \$2,000 is after-tax contributions. In this case, if you roll over \$10,000 to an IRA in a 60-day rollover, no amount is taxable because the \$2,000 amount not rolled over is treated as being aftertax contributions.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

#### **If you miss the 60-day rollover deadline**

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited 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. To apply for a waiver, 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, Individual Retirement Arrangements (IRAs).

#### **If your payment includes employer stock that you do not roll over**

If you do not do a rollover, you can apply a special rule to payments of employer stock (or other employer securities) that are either attributable to after-tax contributions or paid in a lump sum after

separation from service (or after age 59½, disability, or the participant's death). Under the special rule, the net unrealized appreciation on the stock will not be taxed when distributed from the Plan and will be taxed at capital gain rates when you sell the stock. Net unrealized appreciation is generally the increase in the value of employer stock after it was acquired by the Plan. If you do a rollover for a payment that includes employer stock (for example, by selling the stock and rolling over the proceeds within 60 days of the payment), the special rule relating to the distributed employer stock will not apply to any subsequent payments from the IRA or employer plan. The Plan administrator can tell you the amount of any net unrealized appreciation.

#### **If you have an outstanding loan that is being offset**

If you have an outstanding loan from the Plan, your Plan benefit may be offset by the amount of the loan, typically when your employment ends. The loan offset amount is treated as a distribution to you at the time of the offset and will be taxed (including the 10% additional income tax on early distributions, unless an exception applies) unless you do a 60-day rollover in the amount of the loan offset to an IRA or employer plan.

#### **If you were born on or before January 1, 1936**

If you were born on or before January 1, 1936 and receive a lump sum distribution 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 your payment is from a governmental section 457(b) plan**

If the Plan is a governmental section 457(b) plan, the same rules described elsewhere in this notice generally apply, allowing you to roll over the payment to an IRA or an employer plan that accepts rollovers. One difference is that, if you do not do a rollover, you will not have to pay the 10% additional income tax on early distributions from the Plan even if you are under age 59½ (unless the payment is from a separate account holding rollover contributions that were made to the Plan from a tax-qualified plan, a section 403(b) plan, or an IRA). However, if you do a rollover to an IRA or to an employer plan that is not a governmental section 457(b) plan, a later distribution made before age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies). Other differences are that you cannot do a rollover if the payment is due to an "unforeseeable emergency" and the special rules under "If your payment includes employer stock that you do not roll over" and "If you were born on or before January 1, 1936" do not apply.

#### **If you are an eligible retired public safety officer and your pension payment is used to pay for health coverage or qualified long-term care insurance**

If the Plan is a governmental plan, you retired as a public safety officer, and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income plan payments paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of \$3,000 annually. For this purpose, a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew.

#### **If you roll over your payment to a Roth IRA**

You can roll over a payment from the Plan made before January 1, 2010 to a Roth IRA only if your modified adjusted gross income is not more than \$100,000 for the year the payment is made to you and, if married, you file a joint return. These limitations do not apply to payments made to you from the Plan after 2009. If you wish to roll over the payment to a Roth IRA, but you are not eligible to do a rollover to a Roth IRA until after 2009, you can do a rollover to a traditional IRA and then, after 2009, elect to convert the traditional IRA into a Roth IRA.

# THE NERLAND AGENCY TAX-DEFERRED SAVINGS PLAN

## SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

If you roll over the payment to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover). For payments from the Plan during 2010 that are rolled over to a Roth IRA, the taxable amount can be spread over a 2-year period starting in 2011.

If you roll over the payment to a Roth IRA, 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 59½ (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 income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

You cannot roll over a payment from the Plan to a designated Roth account in an employer plan.

### **If you are not a plan participant**

Payments after death of the participant. If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the participant was born on or before January 1, 1936.

### **If you are a surviving spouse.**

If you receive a payment from the Plan as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA 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 income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½.

### **If you are a surviving beneficiary other than a spouse.**

If you receive a payment from the Plan because of the participant'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. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a qualified domestic relations order (QDRO), you

generally have the same options the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). Payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

### **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 Plan is generally required to withhold 30% of the payment for federal income taxes. 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 Form 1040NR and attaching your Form 1042-S. See Form W-8BEN 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 make 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 (not including payments from a designated Roth account in the Plan), the Plan is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover.

Unless you elect otherwise, a mandatory cashout of more than \$1,000 (not including payments from a designated Roth account in the Plan) will be directly rolled over to an IRA chosen by the Plan administrator or the payor. A mandatory cashout is a payment from a plan to a participant made before age 62 (or normal retirement age, if later) and without consent, where the participant's benefit does not exceed \$5,000 (not including any amounts held under the plan as a result of a prior rollover made to the plan).

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

### **FOR MORE INFORMATION**

You may wish to consult with the Plan administrator or payor, or a professional tax advisor, before taking a payment from the Plan. 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, 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](http://www.irs.gov), or by calling 1-800-TAX-FORM.

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# THE NERLAND AGENCY TAX-DEFERRED SAVINGS PLAN

## STATE TAX WITHHOLDING INFORMATION

State income tax withholding falls into one of the three following categories:

1. **Mandatory State Withholding:** Some states require qualified retirement plans to withhold state income taxes from distributions to individuals who legally reside in that state if federal taxes are withheld from those payments. However, several of these states let individuals elect out of state withholding in certain situations. In these cases the individual receiving the payment must provide a written request to have no state taxes withheld.
2. **Voluntary State Withholding:** Voluntary withholding states are states that let individuals determine whether they want state taxes withheld from their payments, regardless of whether federal taxes are withheld. Individuals who legally reside in these states must determine the amount they want to have withheld. If no written election is made, there will be no state withholding.
3. **States with No Withholding:** Some states have no income tax on distributions from qualified plans. Therefore, no state withholding is required from these payments.

The table below shows basic state income tax withholding information by state. For more information about withholding rates and rules, obtain information from your state.

<b>Mandatory State Withholding</b>	
<p><b>Mandatory State Withholding - No Exceptions</b></p> <ul style="list-style-type: none"> <li>AR – 5% of eligible rollover dist.; 3% non-elig.*</li> <li>DE – 5% of taxable portion of distribution.*</li> <li>KS – 5% of taxable portion of distribution.*</li> <li>MD – 7.75% of taxable portion of distribution.</li> <li>ME – 5% of taxable portion of distribution.*</li> <li>NC – 4% of taxable portion of distribution.*</li> <li>NE – 5% of taxable portion of distribution.</li> <li>OK – 5% of taxable portion of distribution.*</li> <li>VT – 5.4% of eligible rollover dist.; 2.7% non-elig.*</li> </ul> <p style="text-align: center;">*Payee may elect out for periodic payments.</p>	<p><b>Mandatory State Withholding - Unless Participant Provides Rate from the Applicable State Form</b></p> <ul style="list-style-type: none"> <li>IA – 5% of taxable portion.*</li> <li>MA – 5.3% of taxable portion of distribution.*</li> <li>VA – 4% of taxable portion of distribution.*</li> </ul> <p><b>You must forward the applicable signed State Form along with your Distribution Election Form to change your withholding rate.</b></p> <p style="text-align: center;">*Payee may elect out for periodic payments.</p>
<p><b>Mandatory State Withholding - Unless Participant Elects Out</b></p> <ul style="list-style-type: none"> <li>CA – 10% of amount of Federal taxes withheld or 6.6% of taxable amount.</li> <li>GA – variable rates, for Periodic Payments only.</li> <li>OR – 8% of taxable portion of distribution.</li> </ul>	
<b>Voluntary State Withholding</b>	
<p><b>Voluntary State Withholding - Participant Elects Amount Withheld (No Election, No Withholding)</b>                      AL, AZ, CO, CT, DC, GA, ID, IL, IN, KY, LA, MI, MN, MO, MS, MT, NJ, NM, NY, ND, OH, PA, RI, SC, UT, WI, WV</p>	
<b>States With No Withholding</b>	
<p><b>No State Withholding</b>                      AK, FL, HI, NH, NV, SD, TN, TX, WA, WY</p>	