

ARIZONA SHEET METAL PENSION PLAN

Special Tax Notice Regarding Spousal Death Benefit Payments

This notice contains important information you will need before you decide how to receive your death Benefits from the Arizona Sheet Metal Pension Plan (referred to herein as the "Plan"). You are eligible for a direct rollover of your death benefit if you are the surviving spouse (or a spouse or former spouse who is an alternate payee under a qualified domestic relations order) of a participant who passes away after August 20, 1996. In this regard, a surviving spouse is eligible to directly roll over his or her death benefit to an individual retirement account. Your death benefit distribution will be subject to 20% withholding if you are eligible to roll over your distribution and you do not elect a direct rollover.

If you are not the surviving spouse (or a spouse or former spouse who is an alternate payee under a qualified domestic relations order), you cannot directly roll over your death benefit and the rules described herein will not apply to you. You will receive withholding information from the Plan if you are not eligible for a direct rollover.

Introduction

A payment from the Plan 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 direct rollover is a payment of your Plan benefit to an individual retirement arrangement (IRA) or to another employer plan. **(As noted below, a surviving spouse may only effect a direct rollover to an IRA.)** This choice will affect the tax you owe. If you elect payment or fail to submit an election form to the Plan, your benefit will be distributed to you subject to 20% withholding as described below. Therefore, it is important that you return your election form to the Plan office.

- **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 an IRA.
 - Your payment will be taxed later when you take it out of the IRA.
- **If you choose to have your Plan benefits PAID TO YOU:**
 - You will receive only 80% of the payment, because the Plan 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 that 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 to an IRA within 60 days of receiving the payment. The amount rolled over will not be taxed until you take it out of the IRA.
- If you want to roll over 100% of the payment to an 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 that is not rolled over.

I. Payments That Can and Cannot Be Rolled Over

Only "Eligible rollover distributions" can be rolled over. An eligible rollover distribution means that the distribution may be rolled over to an IRA. If your lump sum payment is less than \$200 then it is not an eligible rollover distribution and cannot be rolled over.

II. Direct Rollover

You can choose a direct rollover of all or a portion of any payment from the Plan that is an "eligible rollover distribution," as described above. In a direct rollover, the eligible rollover distribution is paid directly from the Plan to an IRA. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA. The amount that is paid as a direct rollover can only be payable to a single IRA. You may not divide the direct rollover among multiple IRAs. You may elect to receive a portion of your distribution as a direct rollover distribution and have the balance distributed directly to you. However, if you divide your distribution in this manner, the portion which is a direct rollover cannot be less than \$500.

- **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).

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. 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, the Plan 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 \$1,000, only \$800 will be paid to you because the Plan must withhold \$200 as income tax. However, when you prepare your income tax return for the year, you will report the \$200 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 Plan administrator for the election form and related information.
- **Sixty-Day Rollover Option.** 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. If you decide to roll over the distribution, 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.

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 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 \$1,000, and you choose to have it paid to you. You will receive \$800, and \$200 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$800, you may roll over the entire \$1,000 to an IRA. To do this, you roll over the \$800 you received from the Plan, and you will have to find the \$200 from other sources (your savings, a loan, etc.). In this case, the entire \$1,000 is not taxed until you take it out of the IRA. If you roll over the entire \$1,000, when you file your income tax return you may get a refund of the \$200 withheld.

If, on the other hand, you roll over only \$800, the \$200 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 \$200 withheld. (However, any refund is likely to be larger if you roll over the entire \$1,000.)

- **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. As the surviving spouse of an employee, you may be able to use the special tax treatment available to employees for lump sum distributions. If you receive a payment because of the employee’s death, you may be able to treat this payment as a

lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had five years of participation.

A lump sum distribution is a payment, within one year, of an employee's entire balance under the Plan (and certain other similar plans of the employer) that is payable to an employee because he has reached age 59-1/2 or separated from service with his employer (or, in the case of a self-employed individual, because he has reached age 59-1/2 or have become disabled). For a payment to qualify as a lump sum distribution, the employee must have been a Participant in the 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.
- **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 that you owe.
- **Capital Gain Treatment If You Were Born Before January 1, 1936.** In addition, if you receive a lump sum distribution and you were born before January 1, 1936, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the Plan (if any) taxed as long-term capital gain at a rate of 20%.

There are other limits on the special tax treatment for lump sum distributions.

For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump sum distributions that you receive in that same year. If you have previously rolled over a payment from the Plan (or certain other similar plans of the employer) you cannot use this special tax treatment for later payments from the 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 distribution and how you elect the special tax treatment.

IV. Alternate Payees, And Other Beneficiaries

In general, the rules summarized above that apply to payments to surviving spouses also apply to payments to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in the Plan results from a "qualified domestic relations order," which is an order issued by a court, usually in connection

with a divorce or legal separation. 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 alternate payees, and other beneficiaries that should be mentioned.

If you are an alternate payee, you have the same choices as an 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. 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 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.

V. Time for Electing a Distribution or Rollover

You have the right to consider whether or not to elect a direct rollover for at least 30 days after you receive this notice. You may, however, elect to receive or not to receive a direct rollover less than 30 days after you receive this notice.

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 accounts from the Plan. Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office or by calling 1-800-TAX-FORMS.