

## SEEK THE ADVICE OF A COMPETENT PROFESSIONAL TAX ADVISOR

Before receiving a distribution from the Deferred Option Plan (Plan B), we strongly encourage you to seek the advice of a competent professional tax advisor. 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. This notice summarizes only the federal (not the state or local) tax rules that might apply to your payment. The rules described are complex and contain many conditions and exceptions that are not discussed.

## 20% WITHHOLDING FOR TAXES

If you receive a "distribution" from the Deferred Option Plan (Plan B), 20% will be withheld from the taxable portion of the distribution unless you "directly roll over" the benefits into an Individual Retirement Account (IRA) or another eligible retirement plan that accepts rollovers. However, if your plan benefit is paid to you (check made out to you) instead of directly rolled over, 20% of the taxable portion of your distribution will be withheld for taxes and sent to the IRS. This means you will receive only 80% of the taxable portion of your distribution.

## TAX ON EARLY DISTRIBUTIONS - HOW DOES THE AGE 50 REQUIREMENT WORK?

In general, if you receive an early distribution from Plan B, the distribution is subject to an additional 10% tax over and above any income tax owed. You will not be subject to the additional 10% tax for early distribution if you are at least 50 years old during or after the calendar year when you separate from service, or if you are 59 1/2 years old or older when you receive the distribution.

A distribution from Plan B before the firefighter reaches age 59 1/2 is subject to a 10 percent penalty tax (i.e., the tax is increased by an amount equal to 10 percent of the amount includible in gross income). The penalty tax does not apply, however, if an early distribution is made because of the firefighters death or disability.

To come within the exception for disability:

1. The individual must be unable to engage in any substantial gainful activity due to a medically determinable physical or mental impairment;
2. The disability must be expected to result in death or be of a long-continued and indefinite duration; and
3. The individual must furnish proof of the disability in the form and manner required by IRS.

In addition, the penalty tax does not apply if the payment is part of a series of substantially equal periodic payments (not less frequently than annually) made over the life (or life expectancy) of the firefighter or the joint lives (or joint life expectancy) of the firefighter and the designated beneficiary.

What happens if the substantially equal periodic payments are modified?

If the amount of the periodic payments is modified (other than by reason of death or disability) before the later of (1) the end of the five-year period beginning with the date of the first payment or (2) the firefighter's attainment of age 59 1/2, the penalty tax that would have been imposed on all payments, plus interest, is imposed in the year in which the modification occurs. IRS has provided the acceptable methods of calculating substantially equal periodic payments.

According to IRS, payments will be considered to be substantially equal periodic payments if they are made according to one of the methods set forth below:

1. Payments will be treated as satisfying this requirement if the annual payment is determined using a method that would be acceptable for purposes of calculating required minimum distributions.
2. Payments will also be treated as substantially equal periodic payments if the amount to be distributed annually is determined by amortizing the firefighter's account balance over a number of years equal to the firefighter's life expectancy (or the joint life and last survivor expectancy of the employee and the firefighter's beneficiary) at an interest rate that does not exceed a reasonable interest rate on the date that payments commence.
3. As a third permissible method, payments will be treated as substantially equal periodic payments if the amount to be distributed annually is determined by dividing the firefighter's account balance by an annuity factor (the present value of an annuity of \$1 per year beginning at the firefighter's age attained in the first distribution year and continuing for the life of the firefighter), with such annuity factor derived using a reasonable mortality table and an interest rate that does not exceed a reasonable interest rate on the date that payments commence.

You may call the pension office for assistance in the calculation of an annuity from your Plan B option balance.