

Benefits Management

What's It All About?
Getting to Know Your Savings
Program.

What Are We Talking About?

- ◆ What is a Savings Program?
- ◆ Why does my Company have a program?
- ◆ Why should I participate?

Good Morning and welcome to our presentation. I am Mike Moore and I work with the Manager of Benefits Management for BWXT Y-12. We also provide administrative support for UTB. At the request of several participants, we are pleased to offer this program as an introduction to the purpose and use of the Savings Program. It is my intention to provide for you a fairly comprehensive look at the Savings Program features, discuss some of the Savings Plan rules and procedures, and demonstrate the use of the Voice Response Unit/Customer Service Representative/Internet communications links available to you the participant.

The Savings Program is at first a complex and difficult beast, but upon examination, I think we will discover that it is one of the most valuable benefits available to our employees. The Savings Program is really a retirement plan. It is a defined contribution retirement plan with a cash or deferral option (CODA) under Section 401(k) of the Internal Revenue Code. That's quite a mouthful. Simply stated, it is a benefit program provided by our employers that is designed to assist the participants in providing for their retirement security.

Your employer is committed to providing quality benefits to help attract and retain a highly skilled and discriminating workforce. In conjunction with the other benefit plans offered, the Savings Program is an integral part of the "total compensation package."

What is a Savings Program?

- ◆ IRS Qualified Benefit Plan
- ◆ Defined Contribution Pension Plan
- ◆ Cash or Deferred Option
- ◆ Company Matching Contributions
- ◆ Individual Account Plan
- ◆ Savings and Value Enhancement
- ◆ Individually Targeted Investments
- ◆ SAVEIT

The program is a “qualified” plan in that it meets the Internal Revenue Service requirements that allows for plans to accept employer tax deductible contributions without having those taxed to the participant, and also allows the participant to defer recognition of income until funds are withdrawn from the plan.

It is a defined contribution plan, as opposed to a defined benefit plan. In a defined benefit plan, like our Pension Plan, the amount of the benefit at retirement is determined by a formula and it becomes the responsibility of the Plan to make sure there are sufficient funds to meet and pay that benefit. The benefit is defined in advance. A savings program defines the contributions that are going to be made, usually in terms of a percentage of compensation and the amount of the benefit is a function of how well the investments perform.

The CODA feature is the last great tax advantage available to the working public. It allows you to choose to have a part of your compensation to be contributed to a plan, as opposed to being paid to you. This means that you are not paying income taxes on the part of your salary you contribute to the plan on a pre-tax basis.

What is a Savings Program? (continued)

- IRS Qualified Benefit Plan
- Defined Contribution Pension Plan
- Cash or Deferred Option
- ◆ Company Matching Contributions
- ◆ Individual Account Plan
- ◆ Savings and Value Enhancement
- ◆ Individually Targeted Investments
- ◆ SAVEIT

The plan has a feature that allows the Company to contribute funds to your account, and not to tax those contributions when made. Your company recently increased the match to 100% of the first two percent of the employee contribution and 50% of the next four. This results in a 4% match on the first 6%.

The plan provides for individual accounts for each participant. Individual accounts mean that each participant has a separate recording of his or her own contributions, earnings, withdrawals and distributions.

The plan allows for the participant to not only save currently, but also allows for the value of their investments to grow without the impact of current taxation. This is value enhancement.

The plan provides that the individual directs where his or her funds are invested, not the company.

Savings And Value Enhancement, Individually Targeted Investments

◆ SAVEIT

Why Does My Company Have A Program?

- ◆ Concern for the welfare of employees
- ◆ Competitive Compensation Program
- ◆ A good balance with a defined benefit plan

In any employment relationship, there must be a sense that the employee and employer are cooperating to produce the best product or service and, in exchange for that effort, that a compensation package will be offered which rewards efforts to contribute to the success of the employer. Initiatives that allow the employee to provide for their retirement while still working have always been well-received by the employee.

Benefits like compensation are ways that potential employees evaluate positions with competing companies. If an employer wants to attract and retain qualified employees, they must include in the “package” sufficient programs. A savings program, or the lack of a savings program, is often a deciding factor.

Savings programs are becoming the retirement plan of choice. With increased mobility, a younger workforce does not have the luxury of a long service with a single employer. Defined benefit programs work best for long-term employees. Our management has chosen to complement the defined benefit plan with a defined contribution plan, therefore providing the best of both options.

Why Should I Participate?

- ◆ The need for savings
- ◆ The advantage of tax deferrals
 - Earnings
 - CODA
- ◆ The advantage of matching funds

Given the increase in life expectancy, the relative youth of our workforce, the state of Social Security, and the lack of automatic cost of living adjustments in our defined benefit retirement plans, there is an increasing chance that many of you will outlive your retirement income. This is as frightening as it gets. Be honest, how many of you are fully prepared for retirement?

A savings program has the basic advantage of tax deferral. It is always a good idea to defer taxes. By being able to invest with tax free dollars you have, at a minimum, 15% more to invest and, at a minimum, a significant advantage as a result of tax free compounding.

The CODA along with FSA's and pre-tax insurance premiums are the last of the true tax shelters available to individuals.

The employer match is an automatic pay increase or immediate return on your money that you can't find anywhere else. It is most difficult to argue against participation, and trust me, I have heard almost every argument. I don't have any money to save, may be nothing more than an explanation that my priorities for current spending are more important than my priorities for future spending.

What Is the Difference in This and the Old General Savings

⊕ Fund?

- ◆ Long-term orientation - This is a retirement plan
- ◆ IRS restrictions on Withdrawals and Distributions
- ◆ Tax advantages of deferred earnings and tax disadvantages of early distributions

The long term employees remember a savings program that was considerably different from the savings program today. Our current plan is a retirement plan. It is designed to encourage participants to set aside money for retirement and to discourage the withdrawal of funds before retirement. It is not designed to be like a Christmas Club with scheduled two-year withdrawals.

Our Savings Program is governed by an official Plan Document that contains the Plan Rules, and is bound by the IRS, DOL and ERISA rules and regulations. These rules are complex and often confusing, but they are the rules. We will attempt to point out rules as we go through the presentation.

In keeping with the advantages of deferring taxes, the rules make the early distribution of funds restricted and then subject to tax penalties even when permitted.

What Do I Need to Know?

- ◆ How to Get Started - Enrollment
- ◆ How to Tell the System What I Want - Interaction
- ◆ How to Make the System Meet My Needs
 - Contributions
 - Investment Elections
 - Withdrawals
 - Loans
 - Distributions
- ◆ Confirmation of your elections

What you need to know about your Savings Program are the same things you need to know about any business opportunity. How do I start, what are the rules I must know and use in order to make the plan work for me, etc...

We are going to discuss how you interact with your Program through the use of the telecommunications links. We are going to show you how to interact with your plan.

We are also going to describe the primary events associated with your plan: contributions, investment elections, withdrawals, loans and distributions.

We will demonstrate how to do many things and how to read the confirmations of the actions that you have taken. We will not be able to cover it all. Each of you has a concept or question that, no matter how carefully I have thought about the system, your question never occurred to me. I hope to save time at the end of the presentation to respond to your questions.

Enrollment

- ◆ Our Plan provides for sharing of information between
 - The Human Resources Management Systems (HRM), SAP, and Cyborg
 - CitiStreet and Trust Record-Keeping System
- ◆ Select and name your beneficiary

To enjoy and use the benefits of any plan, the first thing you have to do is get in it. The Savings Program is a benefit offered to employees. This is significant because we have truly sophisticated Human Resource Management Systems that handle the entry and exit of our employees from the workforce. These systems are linked to the CitiStreet and Trust Record Keeping System

Who is CitiStreet? With the approval of the Board of Directors, State Street Bank and Trust was named the Trustee of the Savings Program. A trustee has the responsibility of holding and safeguarding the assets of the plan. In addition, the decision was made to change from in-house participant record keeping to an out-sourced environment. This contract has been awarded to CitiStreet. The decision was made primarily because of the availability of software that allowed for enhanced access, daily valuation (we will talk about that later), and many more investment options than our old software could support.

What this means to you is that, as soon as you are an employee, you are enrolled in the Savings Program. The only mechanical thing you need to complete at enrollment is the designation of who should be your beneficiary.

How Do I Get Started?

- ◆ If you are a new hire, it's automatic
 - At orientation you will receive an Enrollment Kit
 - ◆ SPD
 - ◆ Prospectuses
 - ◆ Beneficiary and Rollover Forms
 - Information is forwarded to CitiStreet , the record-keeper, by the Human Resources System, SAP
 - CitiStreet will send you an activation kit
 - ◆ A welcoming letter
 - ◆ Your Personal Identification Number (PIN)
 - ◆ A Voice Response Unit/Customer Service Representative Use Card
 - ◆ Beneficiary designation form

As an employee of the Company, you received an enrollment kit, either at your orientation or through the mail, sometime in 1996. The enrollment kit included your employee handbook. We have a special name for that booklet. It is called a Summary Plan Description or SPD.

Almost everything we are going to discuss today is in the SPD. It contains the rules that you need to know in order to effectively use the plan. The plan document is the answer to all questions about how the plan is supposed to work and the SPD is your best source of information about the plan. I have a document, the business requirements document, that describes at length how CitiStreet will operate the plan.

When you were hired, an account was established in your name and the CitiStreet system generated a letter welcoming you to the plan and providing you a Personal Identification Number, which is your password into the system

How Do I Get Started?

(continued)

- ◆ When you receive the activation kit, call the toll free number: 1-888-I-SAVEIT (1-888-472-8348) and select
 - Contribution Percentages
 - Investment Elections for
 - Pre-tax Contributions
 - After-tax Contributions
- ◆ Send your beneficiary designation form to Benefit Plans
- ◆ If you received an activation kit, never used it, and you can't remember your number, just call. The system will know who you are and will allow you to request a PIN reminder letter

One quick word about mailings from CitiStreet . They will arrive in plain envelopes, without any identifying information. This is a purposeful security decision. In order to protect you from those who would like to gain access to your money by stealing your checks or intercepting and misusing your PIN, correspondence does not identify CitiStreet .

1-800-ISAVEIT is your gateway to the program. Your social security number, in combination with your PIN, will grant you access to your accounts. Without your PIN, you cannot access the system. Without your PIN you cannot change your PIN. No one in the company has your PIN number. No one in the company can get your PIN number. If you have lost your number or simply can't remember it, call the system and when you fail to enter your PIN, the system will give you an opportunity to receive a reminder of your current PIN. If you encounter problems attempting to resolve a PIN number problem, contact Benefit Plans.

Entry into the system is where it all starts. Even if you are enrolled, until you elect your contribution percentages and select your investment funds, you are not making any progress toward your savings goals.

You Have a Choice of Access

◆ You may use the Voice Response Unit

- Toll free number
- 24 hour-a-day access
- Customer Service Representative from 9:00 am to 5:00 pm

or

◆ You may use the Internet for Access

- Call the toll free number as above and request that they activate your account for the internet
- Follow the instructions on our internal savings plan page

Your access is entirely up to you. You may use the telephone automated system and push buttons to your heart's content, you may call and speak to a live person to assist you in any of your transactions or to explain any aspect of the plan, or you may access your account via the internet.

The Companies provide a home page for Benefits Management and Benefits Delivery. A key component of that home page is the Savings Plan Site. Here, you can find notices of the what is happening in the Savings Plan area, find out the performance of the funds, link to the home pages of our publicly traded funds, review your financial fitness with a session presented by the Department of Labor and even find the slides and the text to these programs.

Go to the Company WEB Site, Search for Savings Program and follow the instructions.

Now That I Am Enrolled

- ◆ Contributions
- ◆ Investment Elections

The Savings Program is tied directly to the payroll system. Except for rollovers (we will talk about that later), you cannot put money in the Savings Program except through payroll deduction. Essentially what happens is that you tell CitiStreet what you want to do. CitiStreet is the official record keeper of your contribution elections. CitiStreet notifies the payroll program of your elections and they are implemented “as soon as administratively practicable.” What this means is that the data accepted by CitiStreet is stored and transmitted back to payroll every Wednesday. That data is then posted to the payroll system. Depending on when the payroll is calculated within the payroll cycle, data may or may not be updated before the calculation is done. If a data element is not updated before a payroll is calculated, it will be updated before the next payroll cycle.

The first elections you must make are what type and how much in contributions you want to make, and where do you want these contributions invested.

How Do I Contribute?

- ◆ Contribution Types
 - After-tax
 - Pre-tax
- ◆ Contribution Categories
 - Basic
 - Supplemental
- ◆ Contribution Limits
 - Basic Contributions are the first 6%
 - Supplemental Contributions are the next 10%
 - Current limit is 16%
 - Elections are made in 1/2% increments
- ◆ Contribution Mechanism
 - Payroll deduction
 - Rollover

The Savings Program is constructed to provide contributions made with after tax dollars (for you long-term employees, this is the equivalent of the PIA) or with pre-tax dollars (this is the 401(k).) Whether you contribute with pre or after tax dollars is a personal decision. Contributing with after-tax dollars has the advantages of easier access to your funds and an ability to recover those funds without paying additional taxes. Pre-tax contributions have the advantage of deferring taxes until a late period, possibly to a time when your marginal tax rate will be lower. Pre-tax allows you to contribute more funds and therefore have the advantage of compounding working for you.

Having made the decision as to the type of contributions you want to make, we sub-divide the contributions into basic and supplemental. This division allows us to calculate and provide for the company match. The first six percent of your contributions are “basic” contributions. These are eligible for company match. The next 10% of your contributions are “supplemental”, they are not eligible for company match. You may split your basic and supplemental contributions between pre-and after tax without any restrictions. Keep in mind, you do not make any supplement contributions until you have made at least six percent in basic contributions. The basic vs. supplemental division will be important later on when we discuss funds available for withdrawal.

Election Worksheet

	Pre-tax	After-tax	Total
Basic			Maximum of 6%
Supplemental			Maximum of 54%
Total			Maximum of 60%

This is the grid that you need to complete before you contact the Voice Response Unit (VRU) or Customer Service Representative (CSR).

Investment Elections

- ◆ Pre-tax and after-tax elections
- ◆ Elections made in 5% increments
- ◆ Company matching contributions will follow the employee election
- ◆ Most current election is the one in effect
- ◆ These are changes to future contributions

How much to contribute is only one part of the process. The other part is where to put the money.

Selecting investments for your savings program is a big and difficult decision. We have separated this into a whole course of its own. For now, let us concern ourselves with the mechanics of the process.

For both the pre and after tax contributions, the participant may direct that the funds be invested across the spectrum of investment alternatives. The choices must be in at least 5% increments. The participant may change the election at any time and the most recent election will govern when contribution dollars are actually invested.

Remember, we are talking about changing where future contributions are invested. We will talk about moving existing account balances a little later on.

How Does CitiStreet/SAP Know What I Want To Do?

- ◆ 1-888-I-SAVEIT
- ◆ 1-888-472-8348
- ◆ Internet Access: www.oakridge.csplans.com
- ◆ Weekly transmission of data to and from CitiStreet
- ◆ Social Security Number
- ◆ PIN
 - I lost it!!
 - ◆ No one at LMES has the PIN
 - ◆ Request a PIN reminder

So let's do it. Your link to record keeping system and the trustee is through the telephone. If you have a touch tone phone and your social security and PIN numbers, you have all that you need to communicate. The Voice Response Unit is an interactive, computerized telephone system designed and programmed to be responsive to our Plan rules and requirements.

Security is always a concern when we deal with financial information. The combination of your social security number and your PIN number is the only access to the system. If you are concerned about compromising your PIN, change it frequently. If you are concerned about someone in your family abusing your PIN, do not share it. No one in the company has access to your PIN. We cannot change your PIN.

If you don't have your PIN, you may request that a reminder be sent to you by calling the VRU and requesting a reminder. If there is a problem with your address and you are an active employee, you must correct your address through the payroll system. If you are not an active employee, you may request a change of address form from CitiStreet. After the change of address has been processed, you may request a PIN reminder. These routines are necessary to maintain security. If none of this works, contact Benefit Plans for assistance.

How Is My Contribution Calculated?

- ◆ Savings Program record-keeper transmits the employee elections to payroll system
- ◆ Pensionable Earnings = (Straight Time Earnings/Straight Time Earnings) X Scheduled Hours
- ◆ Election grid applied to pensionable earnings to calculate deductions
- ◆ Deductions are transmitted to CitiStreet
- ◆ Deductions are reconciled and posted to individual participant's accounts

Now that CitiStreet knows what I want to contribute, how does that translate into having money taken out of my check and sent to the trustee? Once each week, CitiStreet transmits data collected by the Voice Response Unit back to the payroll systems at BWXT and UTB. This data is posted to the HRM systems, hopefully, in time to be reflected in the next payroll.

Your contribution elections are stored as part of the system and when your pay is computed, the contribution is calculated. Our plan has a specific definition of earnings that is eligible for contribution purposes. It is called eligible earnings and is computed using the formula shown. Remember our election grid, the payroll system literally calculates each box, deducts it appropriately from your check, and creates a file to send to CitiStreet. The payroll system also calculates the appropriate type and amount of each company match and adds this information to the file.

Dollars are wired on payday to CitiStreet. As soon as a reconciliation is prepared by CitiStreet, the trustee, and our payroll system, the wired funds are posted to the individual investment funds as selected by the participant.

How Does My Contribution Get to My Investment Election?

- ◆ Controlled by Source
 - Employee Pre-tax basic
 - Employee Pre-tax supplemental
 - Employee After-tax basic
 - Employee After-tax supplemental
 - Employer Pre-tax match
 - Employer After-tax match
- ◆ Matched against most recent investment election
- ◆ Dollars contributed divided by Share/Unit Value = units purchased

Now that I understand how the trustee knows how much I want to invest, how does it get to my investment election? Remember our basic divisions. Contributions are either pre or after tax. Contributions are either basic or supplemental. Company matching contributions are either pre or after tax. These are our source “buckets”. Funds contributed under these elections retain these identifiers. This becomes much more important later, when we talk about withdrawing or distributing these amounts.

When CitiStreet is ready to post the contributions to the actual investment funds, CitiStreet looks to your most recent election. By the way, if you have forgotten what you elected before, you can either refer to your statement or call the Customer Service Representative to refresh your memory.

I am an accountant. I hate to do it, but we are going to have to talk some accounting here. How does CitiStreet invest your contributions? Very simply stated, your contribution dollars are used to purchase “shares or units” within each investment fund. The amount of “shares/units” your contribution dollars will buy is a function of the “share/unit price” of the investment fund on the day your dollars are invested.

Share/Unit Values?

- ◆ Total market value of assets divided by the number of participation units = Share/Unit Value
- ◆ Share/Unit Value X's Participation Units = Market Value of Account
- ◆ Market Value of Account divided by Share/Unit Value = Shares/Units of Participation

This is not hard, but it is often confusing. When we think about investing in a particular investment fund, we make the assumption that we are buying the basic security associated with the investment. Not really. Assets of trusts are owned by the trustee, that is, they are registered in the Trustee's name. The dollars used by the trustee to purchase the securities belong to the participants. The accounting mechanism that allows for these calculations and processing is called Share/Share/Unit Value accounting.

The basic formula is the key. The formula is stated three different ways.

Does Each Participant Own Individual Securities?

- ◆ Dollars are invested by Trustee into the authorized assets of each investment fund
- ◆ The trust owns the assets
- ◆ The participant has an interest in the assets = participation shares/units
- ◆ Participant does not own individual securities, participant has participation shares/units

If you understand each of these points, then you can see how each transaction could be processed.

The Trustee buys and sells assets in each of the investment funds using dollars provided by the participant and the company. The amount of each individual's interest in the investment fund is expressed in participation units.

Let's take a quiz. If the Share/Unit Value for a particular day was computed to be \$10.00 and you contributed \$100.00, how many participation units would you buy?

Let's leave this alone for a minute and come back to it later.

Where Should I Invest My Money?

- ◆ We can't and won't answer that question
- ◆ We do have a sister course, "Selecting Investments for Your Savings Program - An Investment Primer"
- ◆ Investment Education, Not Advice

This is what many of you came to here. Sorry, but we don't answer that here. We have another entire session. But, sorry, we don't answer that question in the other session either, but we do provide some insight and introduce some strategies that might assist you in making that decision.

The company is restricted from providing investment advice. The company wants to provide investment education.

Consider enrolling in the other session.

What is the Value of My Investments?

- ◆ Daily Valuation computed as of the close of business of the NYSE
 - Call the VRU
 - Ask the CSR
 - Log on to the Internet Access
 - Look at your statement
- ◆ What about the listings in the financial news
- ◆ NAV versus Share/Unit Value

A little more on Share/Unit Values. When we calculate the Share/Unit Value, and we calculate a Share/Unit Value every day that the stock exchange is open, we are not just doing it for purposes of recording your contributions.

When the market value of assets is calculated, we take into account all earnings, both those received (realized) as well as the increase or decrease in the market value of the securities. That means we are tracking the true market value every day. Now keep in mind, our Share/Unit Values are calculated for our specific investment funds. Some of the investment funds hold shares of publicly traded mutual funds. Those publicly traded mutual funds publish Net Asset Values in all of the financial newspapers. The NAV will be the same number as our Share/Unit Value. Certain of our funds employ unit value accounting. Unit values are not the same as share values, but they are calculated in a similar manner and changes in Share/Unit Values will in general track changes in net asset value.

How Do I Monitor Investment Performance?

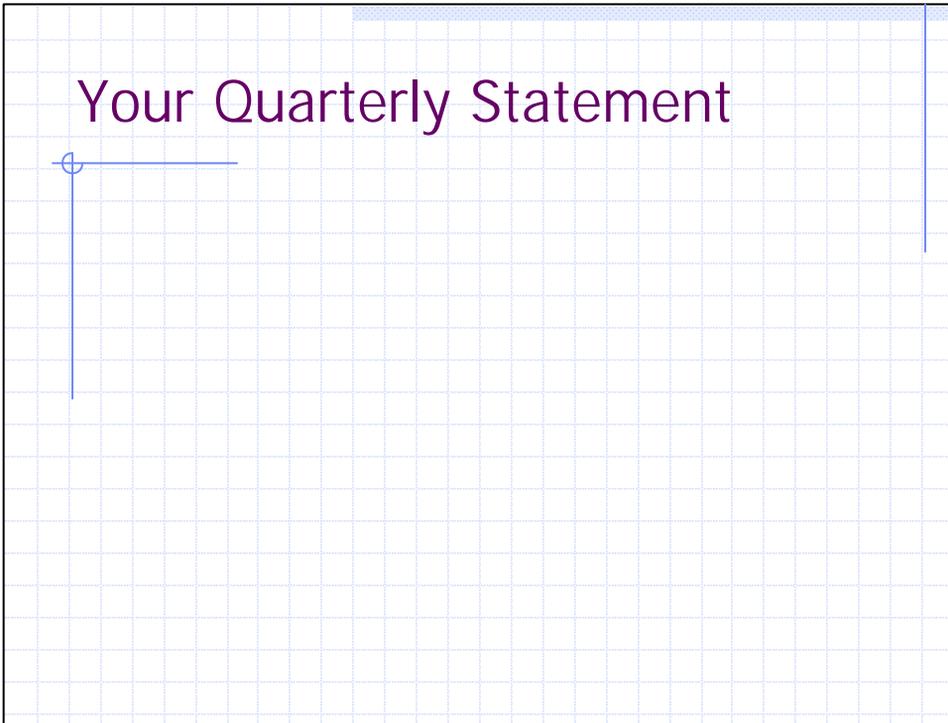
- ◆ Call the VRU
- ◆ Ask the CSR
- ◆ Look on the WEB
 - Intranet Savings Program Page
 - CitiStreet Internet Access
- ◆ Look at your statement

The VRU is programmed to provide you the Share/Unit Values each day and to provide you a calculation of the change in Share/Unit Values over specific periods of time.

At the request of several participants, we also post the Share/Unit Values and chart the changes in Share/Unit Values over time and publish this on the internal WEB. The savings program home page may be accessed through a variety of links. In addition we have a series of questions and answers. One question is the one about the relationship of NAV and Share/Unit Values. Check it out!

Your quarterly statements provide that same information and also provide some benchmarks against which to judge the performance.

Your Quarterly Statement



Use an overhead of the statement and review each entry.

Looking Good, I'm Enrolled, I'm
Contributing, and My Investments
are: _____

- ◆1) Doing Just Fine
- ◆2) Not What I Really Wanted

Guess what. Some of your initial decisions will not be the ones you really wanted.

In addition, things change. What was good for you when you first enrolled may not be applicable today.

Our plan is very flexible. If you don't like what you have, change it.

Change It!

◆ Future Contributions

- Contribution Percentages
- Investment Elections
- Change as frequently as you like, the last election prior to payroll update will govern the posting of data

◆ Current Investment Balances

- Call the VRU or talk to the CSR
- Up to 12 times a year and once each quarter
- From one to up to 11 other elections
- Executed at the closing prices of the day you enter your elections

You don't like how much money you are contributing, you don't like the type of contributions you are making, you don't like where you are investing the funds? Change it. Changes to your future contributions may be made as frequently as you like. Remember, you have to stay within the plan limits on contributions, for 1997, that is a total contribution percentage of 16%, but other than that, change whenever you like.

You may also want to change your current investments by liquidating all or part of an account and moving your assets to another account. This exercise is done every day with every security, it is called trading. Wall Street reports to us each day the results of the trading that goes on.

Within a savings program, you as an investor also have trading capabilities. You may transfer your account balances as frequently as 12 times a year and at least once a quarter. That's fifteen times a year if you do it properly.

Why do you want to trade? Either because your objectives have changed or you want to respond to an overall change in the market. Not because you think you can time the market and Maximize your earnings.

Market Timing

- ◆ You are too slow to time the market, by the time you know it is time to change, it is too late
- ◆ This is a long term investment program, time horizons are measured in tens of years, not days
- ◆ Stick to your original objectives, change only when your objectives change

I would discourage you from moving your funds in an attempt to keep up with the market.

You don't have access to sufficient information to make day to day decisions about particular investments.

You are here for a long term investment program. Treat it as such. Persons planning for retirement should make day to day decisions. Their horizon is long-term, their investment strategy should be long term.

As we will explain in the investments course, asset allocation may be a more productive strategy than chasing a return by constantly switching investments.

But if you do want to change, it is as simple as contacting the VRU/CSR, transacting your business, and receiving a confirmation of the changes you selected.

I'm Contributing, My Investments are OK, But I Need To Use Some of My Funds

- ◆ Withdrawals
- ◆ Distributions
- ◆ Loans

Even though the Savings Program is a retirement plan and funds should remain in the plan until retirement, the plan designers recognized that there would be times when the participants would require access to their funds.

On occasion, a participant will direct that funds be withdrawn from his or her accounts and there are times that certain employment events will dictate that funds be distributed from the account.

With the new processing capability of CitiStreet , it is now possible to borrow and repay funds in the form of a participant loan.

Withdrawals and Distributions

- ◆ Withdrawal - initiated by employee
 - Restricted
 - ◆ Pre-tax restrictions
 - Hardship
 - ◆ After-tax restrictions
 - Tax Consequences
- ◆ Distribution - initiated by employment event
 - termination
 - retirement
- ◆ Minimum Required Distributions

A withdrawal is a participant directed request that funds be removed from the investment accounts and sent to the participant. The Internal Revenue Service and the plan designers, while permitting certain withdrawals, have placed restrictions and penalties throughout the plan to discourage the withdrawal of funds.

Essentially, Monies contributed to the plan on a pre-tax basis are not available for withdrawal. In order to withdraw pre-tax money before age 59 1/2, it is necessary for the participant to demonstrate an immediate and heavy financial need that cannot be met by any other available resources.

Even the money contributed on an after-tax basis is subject to some restrictions and prohibitions. We will discuss those in just a moment.

Distributions are similar to withdrawals, but are tied more to employment related events, like retirement, separation from service, etc...

The Old adage that you can't take it with you is modified to a certain extent inside a savings program. In this type of a program, you can't leave it here forever. We will discuss a part of the Code called the minimum required distribution.

It's My Money!

- ◆ Yes and No
 - Qualified Plan
 - Employer contributions
 - Tax deferred earnings
- ◆ Long-term orientation
 - IRS Rules
 - Plan Rules

Restricted access is the price participants pay for participation in a qualified plan. The tax advantages of qualified plans, tax deferred contributions, tax deferred earnings and tax deferred employer matching contributions usually far out-weigh the restrictions.

Keep in mind that the balance of funds in your account at any one time contains not only your contributions, but also employer matching contributions and earnings.

Both the IRS and the plan designers want to discourage the participant from withdrawing funds or taking a distribution until retirement.

Availability of Funds While You Are Employed

◆ After-tax funds

- After-tax employee basic contributions and earnings, after-tax supplemental contributions, but not the associated earnings
- After-tax matching contributions that have been in the plan for two years
- Suspensions

◆ Pre-tax funds

- After age 59 1/2
- Before age 59 1/2=Hardship

Your after-tax contributions are available as indicated. In effect, your contributions are available, and the employer matching contributions made more than 24 months ago, are generally available.

There are a series of suspensions placed on your account that are dependent on the time that has passed since you made your last withdrawal. Please refer to pages 137 and 138 in the employee handbook. The suspensions are there to discourage the use of the retirement plan as a savings account or checkbook. If you make withdrawals, you lose some of the plan advantages

Your pre-tax funds are more restricted. These funds, employee and employer matching as well as earnings, are only available for regular withdrawal if you are age 59 1/2. Active employees under age 59 1/2 must demonstrate that they qualify for a hardship withdrawal in order to withdraw the funds.

Hardship Withdrawals

- Immediate and heavy financial need
- Other reasonably available resources
- Safe harbor definitions
 - ◆ purchase of primary residence
 - ◆ tuition
 - ◆ medical
 - ◆ eviction/foreclosure
 - ◆ funeral expenses

Recognizing that there is no equity in forcing participants who have a real financial need to have to seek funds elsewhere, the IRS does have a set of rules that govern when pre-tax money may be withdrawn.

These are IRS rules and regulations and not those of the plan designers. Essentially, the participant must demonstrate a need for funds not available from other sources that match the specifics of the “safe harbor” qualifying events. When you request a hardship withdrawal, the form and letter you receive from CitiStreet will assist you in properly requesting and documenting your request.

Hardship withdrawals never happen when the participant is in the best of moods. The participant is always unhappy that they cannot easily withdraw their funds. The Customer Service Representatives and the Benefit Plans Counselors must abide by the rules. Be patient, ask questions, and don't blame our folks. Talk to your congressman.

How Do I Make a Withdrawal?

- ◆ After-tax
 - Call the VRU
 - Call the CSR
 - ◆ Funds Available
 - ◆ Taxable portion
 - ◆ Log on to the Internet
- ◆ Call the VRU/CSR and request a hardship withdrawal form
 - Complete the form
 - Return to Benefit Plans
 - Administrative Committee to approve/dis-approve
- ◆ Don't forget the suspensions

The Voice Response Unit and the Customer Service Representative Help Screens are programmed to reflect the plan rules. When you want to make a withdrawal, the system will advise you of the funds available. The system will also advise you of the expected tax consequence of a withdrawal. Your after-tax contributions, subject to the restrictions I just mentioned, are available directly through the VRU.

Hardship withdrawals require that you complete an application, submit that application to Benefit Plans and await their decision as to qualification.

Don't forget the suspensions. Your next contribution and match may change after a withdrawal has been processed.

A Little More About Withdrawals

- ◆ Minimum withdrawal is \$200, and only one per day
- ◆ You make a withdrawal by type
 - After-tax basic
 - After-tax supplemental
 - After-tax employer match
- ◆ The withdrawal is taken from the investment funds in a pro-ratio

The plan rules will only allow you to make one withdrawal a day and the minimum withdrawal request that will be processed is \$200.00. These are administrative rules designed to keep the cost of operating the plan low and therefore not having to charge the participants any higher record-keeping fees.

Remember that I told you that the “sources” of funds were important, not just for contributions, but also for withdrawals and distributions. When you request a withdrawal, the system first looks to the type of funds being withdrawn. When it comes down to which investment funds are involved in a withdrawal or distribution, it is a matter of what type of money is sitting in the investment account. The system knows every dollar invested in each of the investment funds in terms of how it was contributed. When a withdrawal is made it is made pro-rata across the investment funds. In the old savings plan, you could designate which investment fund to withdraw from. This is not allowed in the new program.

What Do I Get When I Make a Withdrawal=Money, Suspensions and Taxes

- ◆ Check is cut within two business days

When you make a withdrawal, the record keeping system directs the trustee to make sufficient dollars available to write you a check. This means that your account is decreased by the number of units necessary to have sufficient cash to write you a check.

The system has two business days to process your request and put the check in the mail. The postal service will deliver the check and confirmation statement to the address on file.

Suspensions

- ◆ Plan rules designed to encourage you to leave the money in for retirement
- ◆ Suspension is a function of how long it has been since the last withdrawal

Once again, the withdrawal of money contributed in the past may have an effect on the amount of money contributed in the future.

Taxes On My Own Money?

- ◆ Allocated earnings
- ◆ Pre-mature distributions
- ◆ Get tax advice
- ◆ Consider a rollover of the taxable portion

Just what you don't want to hear.

In accordance with the Internal Revenue Code, every withdrawal is composed of both contributed money and associated earnings. If you request an after-tax withdrawal of employee money of \$5,000.00, you are going to receive both after-tax contributions and earnings associated with your after tax dollars.

By definition, you have already paid taxes on the contribution, and you will not pay taxes on them again, but you are also receiving previously un-taxed earnings. These earnings are subject to income taxes. To add insult to injury, if you are under age 59 1/2, the distribution of the earnings will be considered a pre-mature distribution from a qualified plan and these earnings will also be subject to a special excise tax.

I am a CPA and I used to practice tax. Not any more. I don't give tax advice, and I am prohibited by law from offering it to participants. The tax aspects of withdrawals and distributions are sufficiently complicated to warrant tax advice from your tax professional.

You may avoid both the income tax and penalty tax on a withdrawal by directing that the taxable portion of the withdrawal be "rolled over" to an Individual Retirement Account (IRA.) A rollover may be either direct or indirect and is a valuable tool to help to continue to defer taxes. Please get advice before attempting a rollover.

Do I Have Any Options?

◆ The Loan Program

- General Loans
- Residential Loans

◆ Repayment

- To the participant's account
- Interest is charged and credited to participant's account?
 - ◆ This is a savings program, we intend that the accounts continue to grow
 - ◆ Can you make any money at this?

Many participants find themselves in the dilemma of needing to use a portion of their retirement funds, but not wanting to incur any tax consequences. The new Savings Program offers an option to withdrawal.

It is possible to borrow a portion of your account balance. Participants may borrow up to 50% of their account balance to a maximum of \$50,000.00. Funds are withdrawn from the participant's investment accounts in a hierarchy of sources and disbursed to the participant. The participant repays the loan in the form of payroll deductions. The funds are repaid directly back to the participant's account. The loan carries with it an interest rate of prime plus one percent. The interest is posted directly to the participant's account.

A general loan is paid back over a period not exceeding 4 1/2 years, and a residential loan (you will have to document that the proceeds are going to acquire a principal residence) may be paid back over 15 years.

A loan properly borrowed and paid back has no income tax consequences. The participant's account will continue to grow as a result of the interest paid. Don't borrow if you don't need to, but the loan program may be a valuable tool.

Distributions

- ◆ Prior to being eligible to retire
 - Defer
 - Entire account balance
- ◆ Eligible to retire
 - Defer
 - Entire account balance
 - Installment Payments
 - ◆ 10,15 and 20 year certain
 - ◆ Single life
 - ◆ Joint and designated beneficiary life
 - ◆ Uniform Life Expectancy Table
 - Partial payment

Distributions occur at significant employment events like retirement, termination from service and death.

Participants need to be concerned about the form of a distribution, the frequency of that distribution, and the tax advantages of a distribution.

Your retirement status at the date of distribution determines the form that your distribution can take.

Describe the mechanics of each option.

One option is to leave the funds within the Savings Program. With the expanded investment alternatives, the ability to move funds between alternatives, and the ability to correspond directly with the plan, many terminated participants, both retired and others, are choosing to defer the distribution of their accounts until a point in the future.

Deciding when and how to take a distribution is one of your most important tax decisions.

Minimum Required Distributions

- ◆ You must take some of it with you
- ◆ Can't defer beyond age 70 1/2
- ◆ Automatic calculation by CitiStreet

The IRS is not willing to allow the participant to defer the taxes on the Savings Program forever.

The participant must start a series of distributions in the year in which they achieve age 70 1/2 or retire, whichever is later.

This process essentially will cause the participant's account to be distributed over their remaining life expectancies or a joint life expectancy.

Installment Payments and Minimum Required

Distributions

- ◆ Spreads the market value of the accounts over the remaining periods or fixes the payment for a calendar year
- ◆ Funds are distributed in a hierarchy of sources
 - After-tax basic
 - After-tax supplemental
 - After-tax match
 - Pre-tax basic
 - Pre-tax supplemental
 - Pre-tax match

The mechanism for distributing installment payments is basically a process by which the market value is calculated and distributed over a period determined by the participant or the IRS.

This may result in a continually changing payment amount, depending on how the investment funds are earning. The participant does have an option to elect a constant payment for each calendar year.

To mention again, funds are distributed in a hierarchy.. The hierarchy is one that distributes the least tax offensive contributions first and the most tax offensive contributions last.

Taxes, taxes and taxes

- ◆ After-tax money is recovered tax-free, but don't forget the earnings
- ◆ Pre-tax money, employer contributions, and all earnings are subject to tax at distribution
 - Special tax notice
 - Seek tax advice
 - Form 1099
- ◆ Remember the rollover
 - Why rollover?

I don't want to beat the tax issues to death, but every participant should become familiar with the consequences and opportunities.

We publish a special tax notice and include it with our quarterly statements. Take some time and read this notice. If you have questions, ask your tax advisor.

And a Whole Lot of Other Stuff

- ◆ If I should die
- ◆ QDRO's
- ◆ Service Credit and Adjustments
- ◆ Plan Documents and Reports
- ◆ Highly Compensated Individuals and Plan Restrictions

It is impossible to touch on every topic of interest to our participants.

Listed here are some additional items that receive special attention in our Employee Handbook.

Use the book. Call the Customer Service Representative, Call Benefit Plans. Use the WEB and write me E-mail if you have it available.

Call and ask me if there is anything else I might be able to provide.

Thank you for your attention.

Are there any questions?

Stay In Touch

Michael L. Moore

Manager, Benefits Finance

104 Union Valley Road, Rm 126

Telephone: 865-574-9564

E-mail: ik5@y12.doe.gov