

THE UNIVERSITY OF CHICAGO
RETIREMENT INCOME PLAN FOR EMPLOYEES (DEFINED BENEFIT PORTION)
AND
PENSION PLAN FOR STAFF EMPLOYEES

SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

This notice contains important information you will need before you decide how to receive your benefits from the University of Chicago Retirement Income Plan for Employees (defined benefit portion) and/or the University of Chicago Pension Plan for Staff Employees (the “Plans”). In some cases, you may be able to continue to defer federal taxation of payments you receive from the Plans.

This notice is provided to you by the University of Chicago (your “Plan Administrator”) because all or part of the payment that you will soon receive from the Plans may be eligible for rollover. A rollover is a payment by you or the Plan Administrator of all or part of your benefit to an **IRA** or an **eligible employer plan**. Generally, this notice describes the federal tax rules for individuals who receive benefits as participants. If you are receiving this payment because you are an alternate payee under a domestic relations order or a beneficiary of a participant, you will want to review Section V carefully, as some of the rules described below are modified for beneficiaries. Terms that appear in **boldface** are defined at the end of this notice.

SUMMARY

YOUR CHOICE: DIRECT ROLLOVER OR PAYMENT TO YOU

If your benefits under the Plans are eligible for rollover, you may choose to have the Plan Administrator process a **direct rollover** of all or part of your benefit to an **eligible employer plan, traditional IRA** or **Roth IRA**. Your payment cannot be rolled over to a SIMPLE IRA or to a Coverdell Education Savings Account.

Instead of a **direct rollover**, you may choose to have the Plan Administrator make the benefit payment to you. After receiving the payment, you have 60 days to decide whether to keep the payment or roll over all or part of it to an **eligible employer plan, traditional IRA** or **Roth IRA**.

WHEN TO CHOOSE: YOUR RIGHT TO WAIVE THE 30-DAY NOTICE PERIOD

Generally, neither a **direct rollover** nor a payment can be made from the Plans until at least 30 days after you receive this notice. After receiving this notice, you have at least 30 days to consider whether to have your payment made to you or to have it directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by filing an election indicating whether or not you wish to make a **direct rollover**. Your payment will then be processed in accordance with your election.

IF YOU CHOOSE A DIRECT ROLLOVER

If your benefit is eligible for rollover and you choose a **direct rollover**:

- The payment of your benefit to a **traditional IRA** or an **eligible employer plan** will not be taxed in the current year. No income tax will be withheld. The taxable portion of your payment will be taxed later when you take it out of the **traditional IRA** or the **eligible employer plan**. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from the Plans.
- The payment of your benefit to a **Roth IRA** will be taxable in the current year, but the Plan Administrator is not required to withhold income tax. If certain conditions are met, later withdrawals from a **Roth IRA**, unlike a **traditional IRA**, may be made tax-free. Before 2010, you can choose a **Roth IRA** rollover only if you meet income limits and filing status requirements, as described in Section III or IV below.

NOTE: Not all eligible employer plans accept rollovers. An **eligible employer plan** is not legally required to accept a rollover. Before you decide to roll over your payment to an **eligible employer plan**, you should find out whether the plan accepts rollovers and, if so, the types of payments it will accept. Even if a plan accepts rollovers, it might not accept certain types of payments, such as after-tax contributions. If this is the case, you may wish instead to roll over your distribution to an **IRA** or split your rollover amount between the employer plan in which you will participate and an **IRA**.

If an **eligible employer plan** accepts your rollover, that plan may restrict subsequent distributions of the rollover amount or may require your spouse's consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from the Plans. Before requesting the rollover, be sure to check with the administrator of the receiving plan and also find out about any documents that are required to be completed before the receiving plan will accept a rollover.

IF YOU CHOOSE A PAYMENT TO YOU

If you choose to have a payment that is eligible for rollover paid to you:

- You will receive only 80% of the taxable amount of the payment. The Plan Administrator is required by federal tax law to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your federal taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over to an **eligible employer plan** or to a **traditional IRA**. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59½, you may have to pay an additional 10% tax.
- You can roll over all or part of the payment by paying it to an **IRA** or to an **eligible employer plan** that accepts your rollover within 60 days after you receive the payment. The amount rolled over to a **traditional IRA** or to an **eligible employer plan** will not be taxed until you take it out of the **traditional IRA** or the **eligible employer plan**.
- Any taxable amount you roll over into a **Roth IRA** will be taxed in the current year; however, if certain conditions are met, later withdrawals from a **Roth IRA** may be made tax-free. Before 2010,

you can choose a **Roth IRA** rollover only if you meet income limits and filing status requirements, as described in Section III or IV below.

- If you want to roll over 100% of the payment to an **IRA** or an **eligible employer plan**, you must find other money to replace the 20% of the taxable portion that was withheld. If you roll over only the 80% that you received to a **traditional IRA** or an **eligible employer plan**, you will be taxed on the 20% that was withheld and is not rolled over.

MORE INFORMATION

- I. PAYMENTS THAT CANNOT BE ROLLED OVER
- II. AFTER-TAX CONTRIBUTIONS
- III. DIRECT ROLLOVER
- IV. PAYMENT MADE TO YOU
- V. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

I. PAYMENTS THAT CANNOT BE ROLLED OVER

Your Plan Administrator should be able to tell you what portion of your payment is an **eligible rollover distribution**. Generally, unless it is described below, your payment is an **eligible rollover distribution**.

Payments Spread Over Long Periods. You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- your lifetime (or a period measured by your life expectancy), or
- your lifetime and your beneficiary's lifetime (or a period measured by your joint life expectancies), or
- a period of 10 years or more.

Required Minimum Payments. Beginning when you reach age 70½ or retire, whichever is later, a part of your payment cannot be rolled over because it is a “required minimum payment” that must be paid to you.

II. AFTER-TAX CONTRIBUTIONS

If you made after-tax contributions to the Plans, these contributions may be rolled over to either an **IRA** or an **eligible employer plan** that accepts rollovers of after-tax contributions. The following rules apply:

If You Choose a Rollover to an IRA

You can roll over your after-tax contributions to an **IRA** either directly or indirectly within 60 days. The Plan Administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax portion. Once you roll over your after-tax contributions to an **IRA**, those amounts CANNOT later be rolled over to an employer plan.

If you roll over after-tax contributions to a **traditional IRA**, a portion of each future distribution from the **traditional IRA** will be considered to be a nontaxable return of those contributions. Any investment earnings will be taxable. It is your responsibility to keep track of the amount of these after-tax contributions and properly report your income for any future distributions from the **traditional IRA**.

If you roll over your after-tax contributions to a **Roth IRA** and later take a distribution that is a **qualified distribution**, that distribution will be tax-free. If the distribution is not a **qualified distribution**, the amount treated as a return of contributions will be nontaxable. (Before 2010, you can choose a **Roth IRA** rollover only if you meet certain requirements described in Section III or IV below.)

If You Choose a Rollover to an Eligible Employer Plan

You can make a **direct rollover** of after-tax contributions from an employer plan that is qualified under Code section 401(a), a section 403(a) annuity plan, or a section 403(b) tax-sheltered annuity to another such plan if the other plan provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You *cannot* roll over after-tax contributions to a governmental 457 plan.

If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the Plan Administrator of the Plans to make a **direct rollover** on your behalf. Also, you cannot first roll over after-tax contributions to an **IRA** and then roll over that amount into an employer plan.

III. DIRECT ROLLOVER

A **direct rollover** is a direct payment of the amount of your Plan benefits to an **IRA** or an **eligible employer plan** that will accept it. You can choose a **direct rollover** of all or a portion of your payment that is an **eligible rollover distribution**.

Direct Rollover to an Eligible Employer Plan

If you are employed by a new employer that has an **eligible employer plan** and you want a **direct rollover** to that plan, ask the plan administrator of that plan whether it will accept your rollover. An **eligible employer plan** is not legally required to accept a rollover. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the plan administrator of that plan before making your decision. You are not taxed on any taxable portion of your payment for which you choose a **direct rollover** to your new employer's plan until you later take it out of that plan. In addition, no income tax withholding is required for any taxable portion of your Plan benefits for which you choose a **direct rollover**.

Direct Rollover to a Traditional IRA

You can choose a **direct rollover** to a **traditional IRA**. If so, you are not taxed on any taxable portion of your payment until you later take it out of the **traditional IRA**. In addition, no income tax withholding is required for any taxable portion of your Plan benefits for which you choose a **direct rollover**. If you choose to have your payment made directly to a **traditional IRA**, contact the IRA sponsor (usually a financial institution) to find out how to have your payment made in a **direct rollover** to a **traditional IRA** at that institution. If you are unsure of how to invest your money, you can temporarily establish a **traditional IRA** to receive the payment. However, in choosing a **traditional IRA**, you may wish to make sure that the **traditional IRA** you choose will allow you to move all or a part of your payment to another **traditional IRA** at a later date, without penalties or other limitations.

Direct Rollover to a Roth IRA

NOTE: Before 2010, you may choose a rollover to a Roth IRA only if your modified adjusted gross income for the year does not exceed \$100,000. In addition, if you are married, you must file a joint tax return with your spouse.

If you are eligible, you can choose a **direct rollover** to a **Roth IRA**. The entire amount of the rollover (other than any after-tax contributions) is includable in income at the time of the rollover. The Plan Administrator is not required to withhold income taxes. The additional 10% tax for early distributions does not apply at the time of the rollover, but may apply later if the taxable amount rolled over is withdrawn from the **Roth IRA** within five tax years after the year in which the rollover occurred.

The taxability of a later withdrawal from the **Roth IRA** generally depends on whether the withdrawal is a **qualified distribution**. A **qualified distribution** is not included in your gross income. If you do not meet the requirements for a **qualified distribution**, generally you will be taxed on the withdrawal from the **Roth IRA** to the extent it exceeds your contributions (including rollovers) to all **Roth IRAs**.

If you choose to have your payment made directly to a **Roth IRA**, contact the IRA sponsor to find out how to have your payment made in a direct rollover to a **Roth IRA** at that institution.

Direct Rollover of a Series of Payments

If you receive a payment that can be rolled over to an **IRA** or an **eligible employer plan** that will accept it, and it is paid in a series of payments for less than 10 years, your choice to make or not make a **direct rollover** for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

Change in Tax Treatment Resulting from a Direct Rollover

The tax treatment of any payment from an **eligible employer plan** or **IRA** receiving your **direct rollover** might be different than if you received your benefit in a taxable distribution directly from the Plans. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment, as explained below. However, if you choose a **direct rollover** to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or an **IRA**, your benefit will no longer be eligible for that special treatment. See Section IV below under the headings “Additional 10% Tax if You are under Age 59½” and “Special Tax Treatment if You were Born before January 1, 1936.”

See IRS Publication 590, *Individual Retirement Arrangements*, for more information on IRAs (including limits on how often you can roll over between **IRAs** and restrictions regarding **Roth IRAs**).

IV. PAYMENT MADE TO YOU

If a payment that can be rolled over is made to you in cash, it is taxed in the year you receive it unless, within 60 days, you roll it over to a **traditional IRA** or an **eligible employer plan** that accepts rollovers. If you do not roll it over, special tax rules may apply, as described below. Federal income tax withholding rules are also described below. State tax withholding also may apply.

Mandatory Withholding for Eligible Rollover Distributions

If any portion of your payment is an **eligible rollover distribution**, the Plans generally are required by law to withhold 20% of any taxable amount that you elect to receive in cash (but see Section V if you are a non-spouse beneficiary). This amount is sent to the IRS as federal income tax withholding.

Example: You elect to receive a taxable payment of \$10,000 in a single lump sum. Only \$8,000 will be paid to you because the Plans must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see “60-Day Rollover Option” below), you must report the full \$10,000 as a taxable payment from the Plans. You must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your payments for the year are less than \$200.

Voluntary Withholding for Payments Ineligible for Rollover

If any portion of a payment made to you is taxable but is not an **eligible rollover distribution** (as described in Section I), the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan Administrator for the election form and related information.

60-Day Rollover Option

If you receive a payment that is an **eligible rollover distribution**, you can still decide to roll over all or part of it to an **IRA** or to an **eligible employer plan** that accepts rollovers. If you decide to roll over, you must contribute the amount of the payment you received to an **IRA** or **eligible employer plan** within 60 days after you receive the payment.

You can roll over up to 100% of your **eligible rollover distribution**. If you choose to roll over 100% of your **eligible rollover distribution**, you must find money from other sources within the 60-day period to contribute to replace the 20% of the taxable portion that was withheld.

If you choose a **traditional IRA** or **eligible employer plan** for your 60-day rollover, and if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

Example: You elect to receive a taxable payment of \$10,000 in a single lump sum. You will receive \$8,000 and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to an **IRA** or an **eligible employer plan**. To do this, you roll over the \$8,000 you received from the Plans, and you will have to find \$2,000 from other sources (your savings, a loan, etc.).

If you elect to roll over to a **traditional IRA** or an **eligible employer plan**, the entire \$10,000 is not taxed until you take it out of that arrangement. In that case, when you file your income tax return you may get a refund of part or all of the \$2,000 withheld. If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000.)

If you choose a **Roth IRA** for your 60-day rollover, the amount includable in your gross income will be the same amount that would be included if the distribution were not rolled over. In the example above, if you elected to roll over all or any part of your Plan distribution to a **Roth IRA**, the entire \$10,000 would still be taxable in the year it is distributed from the Plans. **NOTE: Before 2010, you may choose a rollover to a Roth IRA only if your modified adjusted gross income for the year does not exceed \$100,000. In addition, if you are married, you must file a joint tax return with your spouse.**

Additional 10% Tax if You are under Age 59½

If you receive a payment before you reach age 59½ and you do not roll it over, then in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax generally does not apply to (1) payments that are paid after you separate from service with your employer during or after the year you reach age 55, (2) payments that are paid because you retire due to disability, (3) payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (4) dividends paid with respect to stock by an employee stock ownership plan (ESOP) as described in Code section 404(k), (5) payments that are paid directly to the government to satisfy a federal tax levy, (6) payments that are paid to an alternate payee under a qualified domestic relations order, or (7)

payments that do not exceed the amount of your deductible medical expenses. (See IRS Form 5329 for more information on the additional 10% tax.)

The additional 10% tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) from another type of **eligible employer plan** or **IRA**. Any amount rolled over from a governmental 457 plan to another type of **eligible employer plan** or to a **traditional IRA** will become subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless one of the exceptions applies.

If you roll over your Plan distribution to a **Roth IRA**, the additional 10% tax will not apply at the time of the rollover, but may apply later (subject to the exceptions listed above) if the taxable amount rolled over is withdrawn from the **Roth IRA** within five tax years after the year in which the rollover occurred.

Special Tax Treatment if You were Born before January 1, 1936

If you receive an **eligible rollover distribution** from a plan qualified under section 401(a) or a section 403(a) annuity plan and you do not roll it over to a **traditional IRA** or an **eligible employer plan**, the payment will be taxed in the year you receive it. However, if the payment qualifies as a **lump sum distribution**, it may be eligible for special tax treatment.

The special tax treatment for **lump sum distributions** that may be available to you is described below.

- Ten-Year Averaging. 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 “10-year averaging” (using 1986 tax rates). Ten-year averaging often reduces the tax you owe.
- Capital Gain Treatment. If you receive a **lump sum distribution** and you were born before January 1, 1936 and you were a participant in the Plan before 1974, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the Plan taxed as long-term capital gain at a rate of 20%.

For a payment to be treated as a lump sum distribution, you must have been a participant in the Plan for at least five years before the year in which you received the distribution.

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. You may not elect this special tax treatment if you rolled amounts into this Plan from a 403(b) tax-sheltered annuity contract, a governmental 457 plan, or an **IRA** not originally attributable to a qualified employer plan. If you have previously rolled over a distribution from this Plan (or certain other similar plans of the employer), you cannot use this special averaging treatment for later payments from the Plan.

If you roll over your payment to an **IRA**, governmental 457 plan, or 403(b) tax-sheltered annuity, you will not be able to use special tax treatment for later payments from that **IRA**, plan, or annuity. Also, if you roll over only a portion of your payment to an **IRA**, governmental 457 plan, or 403(b) tax-sheltered annuity, this special tax treatment is not available for the rest of the payment. See IRS Form 4972 for additional information on **lump sum distributions** and how you elect the special tax treatment.

V. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

In general, the rules summarized above that apply to payments to participants also apply to payments to surviving spouses of participants and to spouses or former spouses who are **alternate payees**. You are

an **alternate payee** if your interest in the Plans results from a “qualified domestic relations order” or “QDRO,” which is an order issued by a court, usually in connection with a divorce or legal separation.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is generally not subject to the additional 10% tax described in Section IV above, even if you are younger than age 59½. You may be able to use the special tax treatment for **lump sum distributions** as described in Section IV above. If you receive a payment because of the participant's death, you may be able to treat the payment as a **lump sum distribution** if the participant met the appropriate age requirements, whether or not the participant had 5 years of participation in the Plan.

Spouse Rollover Rules

If you are a surviving spouse, or an **alternate payee** who is the spouse or former spouse of a participant, you may choose to have an **eligible rollover distribution** either paid to you or paid in a **direct rollover** to an **IRA** or an **eligible employer plan**. If paid to you, the payment will be subject to mandatory 20% federal tax withholding (as described in Section IV above). Once paid, you can keep the money or roll it over yourself within 60 days to an **IRA** or to an **eligible employer plan**. If you roll over the payment to an **IRA**, you may elect to treat the **IRA** as your own. Thus, you have the same choices as the participant.

NOTE: Amounts rolled over to a **Roth IRA** will taxable in the current year, but the Plan Administrator is not required to withhold income taxes when you request a **direct rollover**. Before 2010, you may not choose a rollover to a **Roth IRA** if your modified adjusted gross income for the year exceeds \$100,000 or if you are married and file your income tax return separately from your spouse.

Non-Spouse Rollover Rules

If you are a non-spouse beneficiary or alternate payee (such as a child or domestic partner), you may choose to have an **eligible rollover distribution** either paid to you or paid in a **direct rollover** to an **IRA** (but not an **eligible employer plan**). If paid to you, your payment will be subject to voluntary federal income tax withholding. If you do nothing, an amount will be taken out of your payment for federal taxes. To elect out of withholding, ask the Plan Administrator for an election form and related information. Once payment is made to you, you may *not* roll it over yourself to an **IRA** or an **eligible employer plan**. If you elect a **direct rollover** to an **IRA**, the **IRA** will be treated as a non-spouse inherited **IRA**, under which benefits must be distributed in accordance with the applicable required minimum payment rules.

NOTE: Amounts paid to a **Roth IRA** in a **direct rollover** will taxable in the current year, but the Plan Administrator is not required to withhold income taxes. Before 2010, you may not choose a rollover to a **Roth IRA** if your modified adjusted gross income for the year exceeds \$100,000 or if you are married and file your income tax return separately from your spouse.

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 the Plan Administrator or a professional tax advisor **before** you take a payment of your benefits from your Plans. Also, you can find more specific information on the tax treatment of payments from qualified employer 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, on the IRS's Internet Web Site at www.irs.gov, or by calling 1-800-TAX-FORM.

DEFINED TERMS

Alternate payee. A spouse, former spouse, child or dependent of a participant in the Plans who receives payments as a result of a “qualified domestic relations order” or “QDRO” issued by a court, usually in connection with a divorce or legal separation.

Direct rollover. A payment made by your Plan Administrator of all or part of your benefit directly to an **IRA** or **eligible employer plan** that will accept and hold it for your benefit.

Eligible employer plan. A plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan).

Eligible rollover distribution. The portion of a payment from a plan qualified under Internal Revenue Code section 401(a); a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan) that is eligible for rollover directly to an **IRA** or **eligible employer plan**. Payments *not* eligible for rollover are described in Section I of this Notice.

IRA. When used in this notice, IRA refers to both a **traditional IRA** and a **Roth IRA**.

Lump sum distribution. A payment, within one year, of your entire balance under the Plan (and certain other similar plans of the employer) that is payable to you after you have reached age 59½ or because you have separated from service with your employer (or, in the case of a self-employed individual, after you have reached age 59½ or have become disabled).

Qualified distribution. A distribution from a **Roth IRA** that is fully excludable from gross income. To qualify as such, the distribution must be made (1) after the account owner has attained 59½, become disabled or died, or on account of the first-time purchase of a home; and (2) after the five taxable year period beginning with the first tax year for which you first contributed to any **Roth IRA**.

Roth IRA. An individual retirement account established under section 408A of the Internal Revenue Code.

Traditional IRA. An individual retirement account established under section 408(a) of the Internal Revenue Code. This term does *not* include a SIMPLE IRA or a Coverdell Education Savings Account (formerly known as an education IRA).