CITY OF CHATTANOOGA GENERAL PENSION PLAN
LUMP SUM DISTRIBUTION OF PARTICIPANT CONTRIBUTIONS

The following are procedures for processing pension refund applications:

1. The City of Chattanooga Personnel Department must receive a completed termination form from the respective agency or department indicating that a participant is inactive before a pension refund application can be processed. The agency or departmental payroll clerk usually issues this information. Once this information is received, refund applications are processed and routed to First Tennessee Bank after the last payroll check is issued where pension deductions have occurred.

2. First Tennessee is the custodial financial institution for the General Pension Plan and is responsible for processing lump sum distributions. First Tennessee will issue a check for lump sum distributions within three weeks from the date they receive the refund application forms. Checks are mailed directly to the address listed on the refund application.

3. Pension contributions since January 1, 1993 are taxable (pre-tax/refer to refund application for current tax rate) unless an election is made to directly transfer the funds to an IRA or other qualified plan. Complete forms P-1 and P-2 for transfers. Contributions made prior to January 1, 1993 have already been taxed. You can elect one of the following:

   - Receive a lump sum distribution (refund) of the applicable post-tax/pre-tax contributions - complete form P-1.
   - Transfer only the pre-tax contributions and receive a lump sum distribution (refund) of any applicable post-tax contributions.
   - Transfer **both** the post-tax/pre-tax contributions (TRADITIONAL IRA'S ONLY).

4. Checks prepared to transfer pre-tax contributions to an IRA or other qualified plans are mailed directly to former participants. Former participants are responsible for routing the check to the institution listed on Form P-2.

5. First Tennessee Bank will issue a ***1099R form for federal income tax purposes in late January*** of each calendar year for lump sum distributions issued the previous year. Please inform the City of Chattanooga Personnel Department of **address changes** so that this information can be relayed to First Tennessee Bank.

6. Failure to complete Form P-1 (and Form P-2 for transfers of pre-tax contributions) within 30 days of issuance by the City of Chattanooga Personnel Department will result in an automatic refund.

Please contact the City of Chattanooga Personnel Department at 425-6421 if there are any questions.

CITY OF CHATTANOOGA GENERAL PENSION PLAN
PATICIPANTS **TERMINATING EMPLOYMENT** OR
TRANSFERRING TO THE FIREMEN'S AND POLICEMEN'S INSURANCE AND
PENSION FUND

I have read the information on the special tax implications **(enclosed at end of this document)** concerning the refund of my contributions (and any interest). On receipt of my refund, I hereby release the City of Chattanooga General Pension Plan of any further liability. I make the following election (check one):

☐ I elect to directly receive all my contributions (and any interest). I understand that any contributions made on a pre-tax basis plus any interest credited to these contributions is subject to the mandatory 20% federal income tax withholding. Any contributions made on a post-tax basis are not subject to the 20% withholding, but any interest credited to these contributions (in excess of $200.00) may be subject to the withholding.

☐ I elect to directly transfer to an IRA or other qualified plan any of my contributions (and interest) which would be subject to the 20% federal income tax withholding and to directly receive any of my contributions, if applicable, which are not subject to the 20% withholding. **Complete and return both Form P-1 and Form P-2**.

☐ I elect to directly transfer to a **traditional IRA** my post-tax and pre-tax contributions (and interest). **Complete and return both Form P-1 and Form P2.**

Name **(Print)**	Social Security Number
Address	Department/Division
City	Effective Termination or Transfer Date
State / Zip Code	
Signature	Date Signed

After completion, return Form P-1 (and Form P-2 for transfers) in the enclosed envelope to the City of Chattanooga Personnel Department.

FORM P-1

CITY OF CHATTANOOGA GENERAL PENSION PLAN
DIRECT TRANSFER TO ELIGIBLE RETIREMENT PLAN OR IRA

I elect to transfer the account balance directly to an IRA or another tax-qualified plan **(COMPLETE ONE OF THE FOLLOWING – IRA OR TAX-QUALIFIED PLAN):**

IRA	**Tax-Qualified Plan**
Name of Financial Institution	Name of Plan
Address	Address
City, State and Zip Code	City, State and Zip Code
Contact Person and Telephone Number	Contact Person and Telephone Number
Account Number	Employer's Tax I.D and Account Number

Participant or Beneficiary Signature

Date

FORM P-2

CITY OF CHATTANOOGA GENERAL PENSION PLAN
SPECIAL TAX NOTICE REGARDING SINGLE SUM PAYMENTS

This notice contains important information you will need before you decide how to receive your Plan benefits.

This notice is provided to you by the City of Chattanooga (your "Plan Administrator") because all or part of the payment that you will soon receive from the CITY OF CHATTANOOGA GENERAL PENSION PLAN (the "Plan") may be eligible for rollover by you or your Plan Administrator to a traditional IRA or another qualified employer plan. A "traditional IRA" does not include a Roth IRA, SIMPLE IRA, or education IRA.

If you have additional questions after reading this notice, you can contact your Plan Administrator at (423-757-5200).

SUMMARY

There are two ways you may be able to receive a Plan payment that is eligible for rollover:

(1) certain payments can be made directly to a traditional IRA or, if you choose, another qualified employer plan that will accept it ("DIRECT ROLLOVER"), or

(2) the payment can be PAID TO YOU.

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 your traditional IRA or, if you choose, to another qualified employer plan that accepts your rollover. Your Plan payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or an education IRA because these are not traditional IRAs.
- Your payment will be taxed later when you take it out of the traditional IRA or the qualified employer plan.

If you choose to have a Plan payment that is eligible for rollover *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. 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 also may have to pay an additional 10% tax.
- You can roll over the payment by paying it to your traditional IRA or to another qualified employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the traditional IRA, or the qualified employer plan.
- If you want to roll over 100% of the payment to a traditional IRA or another qualified employer plan, *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.

MORE INFORMATION

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER
II. DIRECT ROLLOVER
III. PAYMENT PAID TO YOU

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER

Payments from the Plan may be "eligible rollover distributions." This means that they can be rolled over to an IRA or to another employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a Roth IRA, a SIMPLE IRA, or an education IRA. Your Plan Administrator should be able to tell you what portion of your payment is an eligible rollover distribution.

The following types of payments *cannot* be rolled over:

Non-taxable Payments. In general, only the "taxable portion" of your payment can be rolled over. If you have made "after-tax" employee contributions to the Plan, these contributions will be non-taxable when they are paid to you, and they cannot be rolled over. (After-tax employee contributions generally are contributions you made from your own pay that were already taxed.) Your Plan Administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax employee contribution portion.

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

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

II. DIRECT ROLLOVER

A DIRECT ROLLOVER is a direct payment of the amount of your Plan benefits to a traditional IRA or another qualified employer plan that will accept it. You can choose a DIRECT ROLLOVER of all or any portion of your payment that is an eligible rollover distribution, as described in Part I above. You are not taxed on any portion of your payment for which you choose a DIRECT ROLLOVER until you later take it out of the traditional IRA or qualified employer plan. In addition, no income tax withholding is required for any portion of your Plan benefits for which you choose a DIRECT ROLLOVER.

DIRECT ROLLOVER to a Traditional IRA. You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional IRA, contact an 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 consider whether 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. See IRS Publication 590, *Individual Retirement Arrangements*, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

DIRECT ROLLOVER to a Plan. If you are employed by a new employer that has a qualified employer plan, and you want a direct rollover to that plan, ask the Plan Administrator of that plan whether it will accept your rollover. A qualified employer plan is not legally required to accept a rollover. If your new employer's plan does not accept a rollover, you can choose a DIRECT ROLLOVER to a traditional IRA.

III. PAYMENT PAID TO YOU

If your payment can be rolled over under Part I above and the payment is made to you in cash, 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 a traditional IRA or another qualified employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding:

Mandatory Withholding. If any portion of your payment can be rolled over under Part I above and you do not elect to make a DIRECT ROLLOVER, 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 you can roll over a payment of $10,000, only $8,000 will be paid to you because the Plan must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, you must report the full $10,000 as a payment from the Plan. You must report the $2,000 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 taxable but cannot be rolled over under Part I above, 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 receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to a traditional IRA or another qualified employer plan that accepts rollovers. If you decide to roll over, *you must contribute the amount of the payment you received to a traditional IRA or another qualified plan 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 traditional IRA or the qualified employer plan.

You can roll over up to 100% of your payment that can be rolled over under Part I above, 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 traditional IRA or the qualified employer plan, 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: The portion of your payment that can be rolled over under Part I above is $10,000, and you choose to have it paid to you. 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 a traditional IRA or qualified employer plan. To do this, you roll over the $8,000 you received from the Plan, and you will have to find $2,000 from other sources (your savings, a loan, etc.). In this case, the entire $10,000 is not taxed until you take it out of the traditional IRA or the qualified employer plan. If you roll over the entire $10,000, 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.)

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), or (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.

Special Tax Treatment If You Were Born before January 1, 1936. If you receive a payment that can be rolled over under Part I and you do not roll it over to a traditional IRA or other qualified employer plan that will accept it, 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. **Error! Reference source not found.** [(See also "Employer Stock or Securities", below.)] A lump sum distribution is 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). 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. 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 if 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%.

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 distribution from the 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 a traditional IRA, you will not be able to use special tax treatment for later payments from the traditional IRA. Also, if you roll over only a portion of your payment to a traditional IRA, 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.

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 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, on the IRS's Internet Web Site at *www.irs.gov*, or by calling 1-800-TAX-FORMS.