SAN JOAQUIN COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS AND FEDERAL INCOME TAX

This notice explains how you can continue to defer federal income tax on your retirement savings in the San Joaquin County Employees' Retirement Association ("SJCERA" or "Plan") and contains important information you will need before you decide how to receive your Plan benefits. This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. Other tax rules apply for California.

You are receiving this notice because all or a portion of the payment you are receiving from the Plan is eligible to be rolled over to an IRA, Roth IRA, or an eligible employer plan. A rollover is a payment by you or SJCERA (your "Plan Administrator") of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. This notice is intended to help you decide whether to do such a rollover.

Rules that apply to most payments from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

GENERAL INFORMATION ABOUT ROLLOVERS

1. ***How can a Rollover affect my taxes?*** You will be taxed on a payment from the Plan that is eligible for rollover (see "How much may I roll over?") if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (generally, distributions made before age 59½), unless an exception applies. However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

2. ***What types of retirement accounts and plans may accept my rollover?*** You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an eligible employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment. If you roll over your benefit, however, to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or an IRA in a direct rollover, your benefit will no longer be eligible for that special treatment. See sections below entitled "If you were born on or before January 1, 1936" and "If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?"

3. ***How do I rollover?*** There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover:
    i. **If you do a direct rollover:** the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.
    ii. **If you do NOT do a direct rollover:** you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. Generally, you will have 60 days after you receive payment to make a deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the payment for federal income taxes (up to the amount of cash and property received). This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

4. ***How much may I roll over?*** If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:
    - Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
    - Required minimum distributions after age 72 (or after death) The Plan administrator or payor can tell you what portion of a payment is eligible for rollover.

5. ***If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?*** If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax applies to the part of the distribution that you must include in income and is in addition to the regular income tax on the payment not rolled over. The 10% additional income tax does not apply to the following payments from the Plan
    - Payments made after you separate from service if you will be at least age 55 in the year of the separation;
    - Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary);
    - Payments made after you separate from service if you are a qualified public safety employee and you will be at least age 50 in the year of the separation; • Payments made due to disability;
    - Payments made after your death;
    - Cost of life insurance paid by the Plan;
    - Payments made directly to the government to satisfy a federal tax levy;;

- Payments made under a qualified domestic relations order (QDRO);
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year);
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days; and
- Payments for certain distributions relating to certain federally declared disasters.

6. ***If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?*** If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions on the part of the distribution that you must include in income, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:
    - The exception for payments made after you separate from service if you will be at least age 55 in the year of the separation (or age 50 for qualified safety employees) does not apply.
    - The exception for qualified domestic relations orders does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse).
    - The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
    - There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to $10,000 used in a qualified first-time home purchase, and (3) payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

7. ***Will I owe state income taxes?*** This notice does not describe any State or local income tax rules (including withholding rules).

8. ***If my payment is not eligible for rollover, will it be subject to mandatory withholding?*** If any portion of your payment is taxable, but cannot be rolled over, 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 SJCERA for the election form and related information.

9. ***What are the consequences for failing to defer receipt of an eligible rollover distribution?*** If you choose to have an eligible rollover distribution (or a distribution that is not eligible for rollover) paid to you now rather than deferring receipt, for example, by leaving the money in the Plan, or by rolling over the eligible rollover distribution to a traditional IRA or an eligible employer plan:
    - You could lose your ability to defer income taxes on the distribution until a later date.
    - You may be subject to the additional 10% early distribution penalty if you receive payment before age 59½.
    - Your benefit may be less now than it will be if you defer receipt until a later date.
    - Your retirement savings may be reduced.

10. ***How much time do I have to decide?*** Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether to have your withdrawal 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 making an affirmative election indicating whether you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan administrator.

SPECIAL RULES AND OPTIONS

1. ***If your payment includes after-tax contributions*** After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment, so you cannot take a rollover of only after-tax contributions. You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). The Plan Administrator can tell you the amount of any after-tax contributions included in your distribution request. If you do a direct rollover to an IRA of only a portion of the amount paid from the Plan and at the same time the rest is paid to you, the portion directly rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of $12,000, of which $2,000 is after-tax contributions. In this case, if you directly roll over $10,000 to an IRA that is not a Roth IRA, no amount is taxable because the $2,000 amount not directly rolled over is treated as being after-tax contributions. If you do a 60-day rollover to an IRA of only a portion of a payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a distribution of $12,000, of which $2,000 is after-tax contributions, and no part of the distribution is directly rolled over. In this case, if you roll over $10,000 to an IRA that is not a Roth IRA in a 60-day rollover, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions. You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover

(and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

2. ***If you miss the 60-day rollover deadline*** Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. Under certain circumstances, you may claim eligibility for a waiver of the 60-day rollover deadline by making a written self-certification. Otherwise, to apply for a waiver from the IRS, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a non-refundable user fee. For more information, see IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).

3. ***If you were born on or before January 1, 1936*** If you were born on or before January 1, 1936, and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

4. ***If you are an eligible retired public safety officer and your payment is used to pay for health coverage or long-term care insurance*** If you retired as a public safety officer and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income Plan payments paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of $3,000 annually.

5. ***If you roll over your payment to a Roth IRA*** If you roll over a payment from the Plan to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover). If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified firsttime homebuyer distribution of up to $10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590-A, Contributions to Individual

Retirement Arrangements (IRAs) and IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).

6. ***If you are not a Plan participant***

   Payments after death of the participant. If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the participant was born on or before January 1, 1936.

   - If you are a surviving spouse If you receive payment from the Plan as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

     An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 72.

     If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant has started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from the Plan, you will not have to start Special Tax Notice receiving required minimum distributions from the inherited IRA until the year the participant would have been age 72. Under current IRS guidance, effective June 26, 2013, same-sex couples legally married in a jurisdiction with laws authorizing same-sex marriage will be treated as married for federal tax purposes and the rules described in this Notice for surviving spouses will be applicable. Note that individuals who are in registered domestic partnerships, civil unions, or other similar relationships that may be recognized under state law but are not considered a legal marriage under state law, will not be treated as married for federal tax purposes. Individuals who are not considered married spouses for federal tax purposes would be covered by the rules described under the section below titled "If you are a surviving beneficiary other than a spouse."

     Note that California state law recognizes same-sex spouses and, for California state tax purposes, also treats registered domestic partners in the same manner as spouses. This means that it appears there will continue to be a difference in treatment of registered domestic partners for federal and California tax purposes. This area of the law is evolving and anyone affected by these situations may wish to consult with a professional financial or tax advisor.

- If you are a surviving beneficiary other than a spouse If you receive a payment from the Plan because of the participant's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a qualified domestic relations order (QDRO), you generally have the same options and the same tax treatment that the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). However, payments under the QDRO will not be subject to the 10% additional income tax on early distributions

7. ***If you are a nonresident alien*** If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Other Special Rule

- If a payment is one in a series of payments for less than 10 years, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).
- If your payments for the year are less than $200 the Plan is not required to allow you to do a direct rollover and is not required to withhold federal income taxes. However, you may do a 60-day rollover.
- You may not elect to have separate portions of an eligible rollover distribution directly rolled over to multiple trustees or custodians.
- You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information on special rollover rights related to the U.S. Armed Forces, see IRS Publication 3, Armed Forces' Tax Guide. You also may have special rollover rights if you were affected by a federally declared disaster (or similar event), or if you received a distribution on account of a disaster. For more information on special rollover rights related to disaster relief, see the IRS website at www.irs.gov.

For More Information

You may wish to consult with SJCERA, or a professional tax advisor, before taking a payment from the Plan. Also, you can find more detailed information on the federal tax treatment of

payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs); IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM. If you have additional questions after reading this notice, you can contact SJCERA at (209 468-2163)