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**INSTRUCTIONS FOR FORMS 3A, 3B & 3C
DEATH BENEFITS
PAYMENT ELECTION**

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

This notice is provided to you by the CERF Administrative Office (your "Plan Administrator"), because all or part of the payment that you will soon receive from the CERF Pension Plan (the "Plan") may be eligible for rollover by you or your Plan Administrator to a traditional IRA, a Roth IRA or an eligible employer plan. A rollover is a payment by you or the Plan Administrator of all or part of your benefit to another plan or a traditional IRA that allows you to continue to postpone taxation of that benefit until it is paid to you (or a rollover to a Roth IRA, as described below). Your payment cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account (formerly known as an education IRA). An "eligible employer plan" includes a plan qualified under section 401(a) of the Internal Revenue Code, including 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; section 403(b) tax-sheltered annuity; or an eligible section 457(b) plan maintained by a governmental employer ("governmental 457 plan").

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions. If this is the case, you may wish instead to roll your distribution over to an IRA (traditional or Roth) or split your rollover amount between the employer plan in which you will participate and an IRA (traditional or Roth). If an employer plan accepts your rollover, the 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 this Plan. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

Generally, the rules summarized below are described from an employee's perspective but generally apply to payments to a surviving spouse of an employee, as described in the "Surviving Spouses" section. Special rules apply to non-spouse beneficiaries, which are different from the rules that apply to surviving spouses and employees. The rules for non-spouse beneficiaries are described in the "Non-Spouse Beneficiaries" section. If you have additional questions after reading this notice, you can contact your Plan Administrator at (877) 632-2373.

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, a Roth IRA, or, if you choose, another eligible employer plan that will accept it and hold it for your benefit ("DIRECT ROLLOVER"); or
- (2) The payment can be PAID TO YOU.

If you choose a **DIRECT ROLLOVER**:

- Except in the case of a Roth IRA (discussed below), your payment will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment will be made directly to your IRA (traditional or Roth) or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account.
- Generally, the taxable portion of your payment will be taxed later when you take it out of the traditional (non-Roth) 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 this Plan.
- If you are eligible (based on certain rules, including the adjusted gross income limits discussed below) and you choose to roll the amount over to a Roth IRA, the taxable amount of the distribution will be included in your taxable income in the current year (except to the extent it represents a return of after-tax contributions). When you later take a distribution out of the Roth IRA, it will not be taxed if you meet certain distribution requirements.

If you choose to have a Plan payment that is eligible for rollover **PAID TO YOU**:

- You will receive only 80% of the taxable portion 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. You may not waive this withholding.
- The taxable amount of your payment will be taxed in the current year unless, within 60 days of receipt, you roll it over to a traditional IRA or eligible employer plan. 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.
- If, within 60 days of receipt, you choose to roll the amount over to a traditional IRA or an eligible employer plan, the amount rolled over will not be taxed until you take a distribution. However, if you later choose to roll the amount over to a Roth IRA, the taxable amount of the distribution will be included in your taxable income for the current year.

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

YOUR RIGHT TO WAIVE THE 30-DAY NOTICE PERIOD

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 or not 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 or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after the Plan Administrator receives it.

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 (traditional or Roth) or to another eligible employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account. Your Plan Administrator should be able to tell you what portion of your payment is an eligible rollover distribution. Note, however, that your Plan Administrator is not responsible for assuring your eligibility to make a rollover to a Roth IRA.

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. Your Plan Administrator should be able to tell you if your payment includes amounts which cannot be rolled over.

DIRECT ROLLOVER

A DIRECT ROLLOVER is a direct payment of the amount of your Plan benefits to an IRA (traditional or Roth) or another eligible 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 the Summary above. Except in the case of a rollover of a pre-tax amount to a Roth IRA (discussed below), 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 eligible 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 Chapter 1 of 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 ROTH IRA

You may be able to open a Roth IRA to receive the direct rollover. Generally, you will be eligible to contribute to a Roth IRA if you have taxable compensation and your modified AGI is less than a certain limit. If you are eligible and you choose to have your payment made directly to a Roth IRA, contact an IRA sponsor to find out how to have your payment made in a direct rollover to a Roth IRA at that institution. Remember that, unlike with other direct rollovers, you will generally be taxed on any amount rolled over to a Roth IRA (except to the extent it represents a return of after-tax contributions). It is also important to note that in order to receive a tax-free distribution from a Roth IRA, you will be required to delay distribution until at least five years have passed since the first taxable year in which a contribution was made to a Roth IRA set up for your benefit and distribution must be made on or after you reach age 59 1/2, made because you are disabled, made to a beneficiary or to your estate after your death, or that is made to buy, build, or rebuild a first home (“a qualified distribution”). Note that part of any distribution from a Roth IRA that is not a qualified distribution may be taxable as ordinary income and subject to the additional 10% tax on early distributions. See Chapter 2 of IRS Publication 590, Individual Retirement Arrangements, for more information on IRAs (including more detail regarding when you are eligible to contribute to, and take a distribution from, a Roth IRA).

DIRECT ROLLOVER TO A 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 your new employer’s plan does not accept a rollover, you can choose a DIRECT ROLLOVER to an IRA (traditional or Roth). 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.

Change in Tax Treatment Resulting from a DIRECT ROLLOVER. The tax treatment of any payment from the eligible employer plan or IRA (traditional or Roth) receiving your DIRECT ROLLOVER might be different than if you received your benefit in a taxable distribution

directly from the Plan. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment on a distribution, as explained below. However, if you have your benefit rolled over to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or a traditional IRA in a DIRECT ROLLOVER, your benefit will no longer be eligible for that special treatment. See the section below entitled "Special Tax Treatment if You Were Born before January 1, 1936."

PAYMENTS PAID TO YOU

If your payment can be rolled over and the payment is made to you in cash, it is subject to 20% federal income tax withholding on the taxable portion. (State tax withholding may also apply.) The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a traditional IRA or another eligible employer plan that accepts rollovers. Remember that, unlike with other rollovers, you will be taxed on any amount rolled over to a Roth IRA (except to the extent it represents a return of after-tax contributions). 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 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, unless you make a rollover to a traditional IRA or an eligible employer plan within 60 days (see "Sixty-day Rollover Option" below), you must report the full \$10,000 as a payment from the Plan. If you make a rollover to a traditional IRA or eligible employer plan within the sixty-day period discussed below, you must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year. Again, remember that, if you choose to roll over an amount to a Roth IRA, that entire amount will be included in your taxable income in the current year (except to the extent it represents a return of after-tax contributions).

Voluntary 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 the Plan Administrator for the election form and related information.

Sixty-Day Rollover Option

If you receive a payment that can be rolled over, you can still decide to roll over all or part of it to an IRA (traditional or Roth) or another eligible employer plan that accepts rollovers. If you decide to roll the amount over, you must contribute the amount of the payment you received to an IRA (traditional or Roth) or another eligible employer plan within 60 days after you receive the payment. Except in the case of a Roth IRA, the portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan. The portion of your payment that is rolled over to a Roth IRA will be taxable in the current year (except to the extent it represents a return of after-tax contributions). However, when you later take a distribution out of the Roth IRA, it will not be taxed if, among other things, you do not take a distribution for at least five years following the first taxable year in which a contribution was made to a Roth IRA set up for your benefit.

Subject to the eligibility restrictions applicable to Roth IRAs, you can roll over up to 100% of your payment that can be rolled over, 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 eligible 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 taxable 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 choose to roll over the entire \$10,000 to a traditional IRA. 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. 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 to the traditional IRA, 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.)

Special Tax Treatment If You Were Born Before January 1, 1936.

If you receive a payment from a plan qualified under section 401(a) or a section 403(a) annuity plan that can be rolled over in the Summary and you do not roll it over to an IRA (traditional or Roth) 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. A lump sum distribution is a payment, within one year, of an employee's entire balance under the Plan (and certain other similar plans of the employer) that is payable to an employee after the employee has reached age 59½ or because he or she separated from service with the employer (or, in the case of a self-employed individual, after he or she reached age 59½ or has become disabled). For a payment to be treated as a lump sum distribution, such person must have been a participant in the plan for at least five years before the year in which he or she 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.

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 an IRA (traditional or Roth), governmental 457 plan, or 403(b) tax sheltered annuity, you will not be able to use special tax treatment for later payments from the traditional IRA, plan or annuity. Also, if you roll over only a portion of your payment to an IRA (traditional or Roth), 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.

SURVIVING SPOUSES

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees.

If you are a surviving spouse, you may choose to have a payment that can be rolled over, paid in a DIRECT ROLLOVER to a traditional IRA, to a Roth IRA (provided you meet the eligibility requirements, including the modified AGI limitations), to an eligible employer plan, or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a traditional IRA, to a Roth IRA or to an eligible employer plan. Thus, you have the same choices as the employee.

If you are a surviving spouse, your payment is generally not subject to the additional 10% tax, even if you are younger than age 59½. You may be able to use the special tax treatment for lump sum distributions. In addition, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had 5 years of participation in the Plan.

NON-SPOUSE BENEFICIARIES

If you are a designated non-spouse beneficiary, you may choose to have a payment that can be rolled over, paid in a DIRECT ROLLOVER to a traditional IRA or to a Roth IRA (provided you meet the eligibility requirements, including the modified AGI limitations) that was opened for the purpose of receiving the direct rollover. Except in the case of a Roth IRA, you are not taxed on any portion of your payment for which you choose a DIRECT ROLLOVER in the year it is rolled over. In addition, no income tax withholding is required for any portion of your Plan benefits for which you choose a DIRECT ROLLOVER.

Your payment cannot be rolled over to a SIMPLE IRA, or a Coverdell Education Savings Account. If you have the payment rolled over into an IRA (traditional or Roth), the IRA must be titled in a manner that identifies it as an IRA of the deceased employee and you, as the beneficiary. Any IRA you open for the purpose of receiving a DIRECT ROLLOVER will be treated as an inherited IRA under the law.

If you have the payment paid to you, you can keep it or roll it over yourself to an IRA (traditional or Roth). The payment is taxed in the year you receive it, even if you later decide to roll over any portion of your payment to an IRA. The sixty-day rollover option does not apply to non-spouse beneficiaries.

If your payment can be rolled over and the payment is made to you in cash, it is subject to mandatory 20% federal income tax withholding on the taxable portion. (State tax withholding may also apply.) Remember that, unlike with other rollovers, you will be taxed on any amount rolled over to a Roth IRA (except to the extent it represents a return of after-tax contributions). If you do not roll it over, special tax rules may apply.

If you are a non-designated non-spouse beneficiary, you are not eligible to elect a DIRECT ROLLOVER and your payment will not be subject to the mandatory 20% federal income tax withholding. In this case, you may elect not to have withholding apply to your distribution. 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.

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