401K FREQUENTLY ASKED QUESTIONS

What is a 401K Plan?
A 401K Plan is a defined contribution savings plan sponsored by your employer that allows you to contribute a portion of your salary to a retirement plan account through payroll deductions. Generally contributions are made on a before-tax basis. As such your current taxable income is reduced and you pay less in current federal income tax. Subject to Plan provisions, you may also be able to make contributions on a after-tax basis which is called Roth contributions.

What is the Maximum Annual Contribution to a 401K Plan?
The contributions to 401K Plans are subject to certain annual limits. In 2012 the maximum annual contribution has been established at $17,000. This includes both before-tax and after-tax (Roth) contributions. In addition, participants over age 50 may contribute an additional $5,500 in Catch-Up contributions.

What is the Difference Between a "Roth" and a Traditional 401K Contribution?
In general the difference between a Roth 401K and a Traditional 401K is that the Roth is after-tax dollars while the traditional 401K is before-tax dollars. After-tax dollars represent money for which taxes are paid in the current year, and before-tax dollars are those that do not represent federal taxable income in the current year. Typically the earnings on Roth contributions will be tax free as long as the distribution is made at least 5 years after the first Roth contribution is made and the attainment of age 59-1/2. Not all Plans offer the Roth 401K provision. Please check with your Provider, Benefits Department or EPIC to verify if your Plan offers this feature. Please note that Roth contributions are made after-tax.

What are "Catch-Up" Contributions?
Participants over age 50 may make additional contributions (subject to the annual maximum) to a 401K Plan, providing they have contributed the maximum annual contribution for that year.

Can Money be Accessed from a 401K Plan?
While 401K Plans were developed as a means for saving for retirement, there are a few cases where money can be taken from the plan before retirement.

- **Loans:** Some 401K Plans allow for a loan to be taken against funds contributed.
- **Hardship Distribution:** Some 401K Plans allow for distribution in times of extreme financial hardship.
- **Distribution Upon Termination of Employment, Death or Disability:** Upon termination, death or disability, the participant (or his/her beneficiary) will have the option of rolling over the account balance into another qualified plan or IRA (not available to beneficiaries other than the participant's spouse) or taking a cash distribution. In the event of a cash distribution, 20% of the account balance will be held for income tax purposes, in addition to a 10% penalty tax if the participant is under the age of 59-1/2.

Please consult with your Plan Provider or Benefits Department for a full overview of your Plan's provisions or call **EPIC** at 888-558-EPIC (3742).

What are Hardship Withdrawals?
The IRS code that governs 401K plans provides for hardship withdrawals only if: (1) the withdrawal is due to an immediate and heavy financial need; (2) the withdrawal must be necessary to satisfy that need; (3) the withdrawal must not exceed the amount needed; (4) the participant must have first obtained all distribution or nontaxable loans available under the Plan; and (5) the participant can't contribute to the Plan for the six months following the withdrawal.

The following six items are considered by the IRS as acceptable reasons for a hardship withdrawal:
- Un-reimbursed medical expenses for the participant, spouse or dependents;
- Purchase of a primary residence;
- Payment of college tuition and related educational costs such as room and board for the next 12 months for the participant, spouse, dependents or children who are no longer dependents;
- Payments necessary to prevent eviction from the primary residence or foreclosure on the mortgage of the primary residence;
- Repair of a primary residence;
- Funeral expenses

It should be noted that Hardship Withdrawals are subject to income tax and, if the participant has not yet reached age 59-1/2, a 10% withdrawal penalty.

<u>Are There Any Required Distributions?</u>

Participants are required to begin receiving benefit payments from the Plan no later than the April 1 of the calendar year following the calendar year in which the participant:
- Reaches age 70-1/2 or
- Separates from service

It should be noted that distribution due to separation from service cannot be made without the consent of the participant unless the account balance is less than $5,000.

<u>What Distributions from a 401K are Not Subject to the 10% Early Withdrawal Penalty?</u>

There are a few situations where the IRS will waive the 10% early withdrawal penalty as follows:
- Payments up to the amount of deductible medical expenses
- Distribution due to a Qualified Domestic Relations Order (QDRO) (distribution to a former spouse, child or dependent mandated by the courts).
- Distribution due to total disability.
- Distribution due to death.
- Distribution due to separation from service to a participant who has reached age 55.
- In-Service distribution after age 59-1/2

<u>What does Vesting Mean?</u>

The "vested" portion of a participant's 401K account is the part that cannot be forfeited. The money contributed by the participant is always 100% vested. In other words, whatever money put into the plan, adjusted for any investment gains or losses, is always 100% the participant's.

The money contributed by the employer, if any, is often subject to a vesting requirement. Vesting requirements are very common and simply mean that the participant must satisfy a service requirement before the funds are 100% owned by the participant.

<u>When are Employer Contributions Vested?</u>

That depends on the rules of the Plan. Employers have some flexibility in deciding vesting schedules. In some plans participants are 100% vested as soon as they join the Plan while in others participants have to complete a set number of years of service before being fully vested.

By law all participants must be fully vested in employer matching contributions after six years of service and other employer contributions after seven years of service. Additionally there are a few guidelines that typically apply to most plans. For instance, in most plans participants automatically become fully vested when they reach age 65 or in the event of death or disability.

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This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.