NORTHERN CALIFORNIA PIPE TRADES TRUST FUNDS FOR UA LOCAL 342

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SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

This Notice explains how you can continue to defer federal income tax on your retirement savings in the **Northern California Pipe Trades Supplemental 401(k) Retirement Plan** and the **Northern California Pipe Trades Pension Plan** (collectively referred to as the "Plan") and contains important information you will need before you decide how to receive your Plan benefits.

You are receiving this Notice because all or part of the payment that you will soon receive from the Plan may be eligible to be rolled over to an Individual Retirement Account or Individual Retirement Annuity ("IRA") or another qualified plan. This Notice is intended to help you decide whether to do such a rollover.

This Notice describes the rollover rules that apply to payments from the Plan that are not from a designated Roth account (a type of account with special tax rules in some employer plans). Rules that apply to most payments from the Plan are described in the "General Information About Rollovers" section (Page 3). Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section (Page 5).

A rollover is a payment by you or the Plan Administrator of all or part of your benefit to an eligible employer plan or traditional IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. Your payment may also be rolled over to a Roth IRA. An "eligible employer plan" includes 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).

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 that 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 a traditional IRA or Roth IRA or split your rollover amount between the employer plan in which you will participate and a traditional IRA or Roth IRA. If an 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 this Plan. Check with the Administrator of the plan that is to receive your rollover prior to making the rollover.

This Notice, which is patterned on the updated IRS model notice in IRS Notice 2020-62, as amended by different federal laws, is required by federal law.

The Notice is not personal tax advice. Because the tax rules are complex and contain many conditions and exceptions which are not addressed in this Notice, it is recommended that you consult with a professional tax advisor for tax advice.

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I. GENERAL RULES ON TAXATION AND EARLY DISTRIBUTIONS

(1) TAX ON DISTRIBUTIONS. As a general rule, when you receive a distribution directly from a qualified pension plan, such as this Plan, you will pay federal and state taxes on the distribution. (There may be an exception for certain types of payments on account of a disability.) This Notice is intended simply to provide you with general information on the tax rules and some of your options. You should consult with a Tax Advisor for specific tax advice.

(2) 10% PENALTY TAX ON CERTAIN DISTRIBUTIONS. If you are under age 59½, you will have to pay an additional 10% penalty tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, **unless the distribution meets one of the exceptions in the Internal Revenue Code.** This tax is in addition to the regular income tax on the payment not rolled over. (This portion of the Notice applies mostly to distributions from the Northern California Pipe Trades Supplemental 401k Retirement Plan.) **The primary exceptions of the 10% tax penalty include**:

1. **Eligible Rollover.** You roll over the distribution in the manner described below in the Summary.
2. **Early Retirement/Termination of Employment At age 55 or Older.** A distribution made to you on account of qualifying for early or service retirement under the Plan on or after age 55.
3. **Attainment of Age 59½.** A distribution made during or after the year you attain age 59½ even if you are working.
4. **Certain Disabilities.** A distribution due to your inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment, which can be, expected to result in death or to be of long-continued and indefinite duration. (Not all disabilities meet this standard.)
5. **Periodic Payments-Substantially Equal Payments.** Periodic payments which are made in a series of substantially equal periodic installments (at least annually or more often) made for your life or life expectancy or for the joint lives or a term equal to the joint life expectancies of you and a designated beneficiary.
6. **Medical Deduction.** A distribution to the extent such distribution does not exceed the amount allowable as a medical deduction under Internal Revenue Code Section 213.
7. **Death Benefits.** A distribution to your beneficiary or your estate on account of your death.
8. **Qualified Domestic Relations Orders.** A distribution to an Alternate Payee (spouse, child, or other dependent) pursuant to a Qualified Domestic Relations Order.
9. **Corrective distributions.** Corrective distribution of contributions that exceed tax law limitations.
10. **Certain Payments While on Active Duty In the Uniformed Service.** 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.
11. **Resident of Federally Declared Disaster Area.** A distribution up to $22,000 (for each declared disaster) made to a Participant living in a federally declared disaster area. The President of the United States has to have declared a disaster under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.
12. **Terminal Illness.** A distribution made to a Participant who is not working in Covered Employment who has been determined to be terminally ill (a physician certifies in writing that the illness or condition is reasonably expected to result in death in 84 months or less), provided that the Participant is also eligible for another type of distribution eligible for special tax treatment and unless government guidance says otherwise.

Warning: You may also be liable for state tax penalties. For example, California assesses a 2.5% penalty.

Reminder: The information in this Notice is not intended to be tax advice. Thus, it is suggested that you consult with a tax advisor before you file your Distribution Request Form to receive your benefits from the Plan.

II. GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?

You will be taxed on a payment from the Plan if you do not roll it over. If you are under age 59½ (or under age 55, if you terminated your Covered Employment on or after age 55) and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies such as early retirement on or after age 55). However, if you do a rollover, you may 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).

Where may I roll over the payment?

You may roll over the payment to either an Individual Retirement Account or Individual Retirement Annuity ("IRA") or an Eligible Employer plan (a Tax-qualified plan, Section 403(b) plan, or Governmental section 457(b) plan) that will accept the rollover. If you want to make a direct rollover to another Employer plan, ask the Plan Administrator of that plan whether it will accept your rollover. The rules of the IRA or Eligible Employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or Eligible 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 Eligible Employer plan.

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

- **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.
- **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. You will have 60 days after you receive the payment to make the 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). 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). There is also a premature distribution state tax penalty in some states. California imposes a 2.5% premature distribution tax penalty.

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. The Plan Administrator or the Payer can tell you what portion of a payment is eligible for rollover. Any payment from the Plan is eligible for rollover, **except (the following are not eligible for rollover)**:

- 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 (known as your "RMD") after age 70½ (if you were born before July 1, 1949), after age 72 (if you were born after June 30, 1949), after age 73 (if you attained age 72 after December 31, 2022), or after death.
- Corrective distributions of contributions that exceed tax law limitations.
- Loans treated as deemed distributions (for example, loans in default due to missed payments before your employment ends).
- Payments of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.

<u>If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?</u>

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 above applies. This tax is in addition to the regular income tax on the payment not rolled over. The 10% additional income tax **<u>does not apply</u>** 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 and you qualify for Early or Service Retirement.
- 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 due to certain disabilities.
- Payments after your death.
- Corrective distributions of contributions that exceed tax law limitations.
- Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment.
- 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.
- 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.
- Payments made under the Resident of a Federally Declared Disaster Area Distribution option.
- Payments made under the Terminal Illness Distribution option, provided that you are also eligible for another type of distribution eligible for special tax treatment and unless government guidance says otherwise.

<u>If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?</u>

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 from the IRA, 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:

- There is no exception for payments after separation from service that are made after age 55.
- The exception for QDROs 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) payment 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).

<u>Will I owe state income taxes?</u>

This Notice does not describe any state or local income tax rules (including withholding rules). Please note that state or local income tax is withheld only for those states where such withholding is mandatory. If you reside in a state that has state income tax, and the state does not have a mandatory withholding rule, you will be responsible for any state income taxes due on the taxable portion of your distribution. In addition to ordinary taxes, California assesses a 2.5% penalty for early withdrawals and income tax withholding is required unless you elect not to have income tax withheld.

III. SPECIAL RULES AND OPTIONS

<u>If you miss the 60-day rollover deadline</u>

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. To apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see ***IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).***

<u>If you have an outstanding loan that is being offset</u>

If you have an outstanding loan from the Plan, your Plan benefit may be offset by the amount of the loan. The loan offset amount is treated as a distribution to you at the time of the offset and will be taxed (including the 10% additional income tax on early distributions, unless an exception applies) unless you do a 60-day rollover in the amount of the loan offset to an IRA or Employer plan.

<u>If you were born on or before January 1, 1936</u>

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 taxable portion of the payment might apply to you. For more information, see ***IRS Publication 575, Pension and Annuity Income***.

<u>If you roll over your payment to a Roth IRA</u>

If you roll over the payment 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 first-time 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)***.

<u>If you are not a Plan Participant</u>

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 a 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. 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 70½. 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 had 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 receiving required minimum distributions from the inherited IRA until the year the Participant would have reached his or her Required Minimum Distribution Age (age 73 if you attained age 72 on or after 12/31/22).

- ***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, you have the option to do a direct rollover to an inherited IRA or, if the payment is from a Designated Roth Account, you have the option to do a direct rollover to an inherited Roth IRA. Payments from the inherited IRA, or from the inherited Roth IRA (even if made in a nonqualified distribution) 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 and/or Roth IRA.

Payments under a Qualified Domestic Relations Order ("QDRO") If you are the Spouse or Former Spouse of the Participant who receives a payment from the Plan under a QDRO, you generally have the same options the Participant would have (for example, you may roll over the payment as described in this Notice). Payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

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 Rules

- **Payments For Less than 10 Years.** 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).
- **Payment Less than $200.** If your payments for the year are less than $200 (not including payments from a designated Roth Account in the Plan), the Plan is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover.
- **Mandatory Cashout.** Unless you elect otherwise, a Mandatory Cashout of more than $1,000 (not including payments from a Designated Roth Account in the Plan) will be directly rolled over to an IRA chosen by the Plan Administrator. A Mandatory Cashout is a payment from a plan to a Participant made before age 62 (or Normal Retirement Age, if later) and without consent, where the Participant's benefit does not exceed $7,000 (not including any amounts held under the Plan as a result of a prior rollover made to the Plan).
- **U.S. Armed Forces.** You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see ***IRS Publication 3, Armed Forces' Tax Guide***.

FOR MORE INFORMATION

It is recommended that you consult with a professional tax advisor if you have questions before taking a payment from the Plan. Also, you can find more detailed information on the Federal Tax Treatment of payments from Eligible 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 IRAs,*** and ***IRS Publication 571, Tax-Sheltered Annuity Plans (403b Plans).*** These publications are available from a local IRS office, on the IRS website at www.irs.gov, or by calling 1-800-TAX-FORM.