



DEFERRED COMPENSATION PLAN - DISTRIBUTION OPTIONS (AN OVERVIEW)

Within 30 days following separation from service you must decide how to proceed with your deferred compensation balance. You may not receive funds in the same month that you separate from service. You may choose to delay distribution of your account, however you must begin distribution by April 1st of the calendar year following the year in which you reach age 70 1/2. You must notify the City of San Jose 30 days prior to the date that you are requesting payments to begin. Should you die prior to beginning distribution, your beneficiary may begin distribution of the funds, within certain and specific limitations. Payments to a beneficiary are taxed as ordinary income to them.

Pursuant to Municipal Code Chapter 3.48 & Chapter 3.50 and IRS Code Sec. 457, at separation of service, the following distribution options are available:

- ◇ Lump Sum
- ◇ Partial Distribution
- ◇ Periodic Payments (monthly, quarterly, semi-annually or annually)
- ◇ Variety of Annuities
- ◇ Any Combination of the Above Options

You may receive the payments over any number of years not to exceed your expected lifetime. Therefore, there is a minimum amount you must receive each year. Given your account balance, prevailing interest rates and a given time period, ING can estimate what your periodic payments will be. Should you die after distribution has begun your beneficiary may change the distribution option (within specific limitations), or receive a lump sum.

Once distribution from your account begins the method and terms are **flexible**. **There is no early distribution tax penalty**. ING will withhold taxes as you direct if your payment is part of a stream of equal payments that are expected to last for 10 years or more years. If your payment is expected to last **less** than 10 years, payments will be subject to a mandatory 20% federal income tax withholding. You will receive 1099 at the end of the year from your provider. Funds are taxed at ordinary income tax rate when distributed.

Under current IRS provisions, funds **can** be rolled into other qualified plans such as IRA's, 401(k), 401(a) and 403(b). Monies rolled into these Retirement Plans will take on all characteristic rules of these plans.

If you have any questions, please contact the Deferred Compensation office at (408) 975-1465.