In-Plan Roth Conversion Participant Notice

Converting non-Roth contributions to Roth contributions can be a complex decision that is dependent on your personal financial situation and may not be appropriate for all situations or in all circumstances. **Therefore, it is very important that you consult with your individual tax advisor to help you determine if this strategy is appropriate for you.** The following Q&As are designed to answer some of the questions you may have regarding your ability to convert your non-Roth contribution accounts to a Roth contribution account.

1. ***What is the difference between a Roth contribution and a pre-tax salary deferral under a 401(k) or 403(b) plan?***

If you are eligible to participate in the plan, you may elect to defer a portion of your salary into the plan as a pre-tax salary deferral. If you make pre-tax salary deferrals to the plan, you are not subject to taxation at the time you make those contributions to the plan. The amount you contribute is not taxed until you take a distribution from the plan at which time you will be taxed on the amount distributed (including any earnings on such amounts.) Roth contributions, on the other hand, are subject to taxation at the time such amounts are contributed to the plan. However, you will not be taxed on any Roth amounts distributed from the plan (including earnings), provided the Roth contributions are distributed in a "qualified distribution" (see Q-5, below). If you wish to make Roth contributions to the plan, you may enter into a salary deferral election electing to make Roth contributions to the plan.

2. ***What is an "in-plan Roth conversion"?***

In addition to your right to make Roth contributions to the plan, Congress recently passed a law that allows participants in a 401(k) or 403(b) plan to convert existing pre-tax contributions to Roth contributions. This includes not only salary deferrals, but other contributions, such as employer contributions or matching contributions. Thus, if you meet the requirements for making a Roth conversion under the plan, you may elect to convert all or any portion of your non-Roth contributions to Roth contributions.

3. ***What are the tax consequences of making an in-Plan Roth conversion?***

If you elect to convert any portion of your non-Roth contributions to Roth contributions, you will have to include those amounts in gross income for the year of the conversion, unless you have already included such amounts in income.

If you do a Roth conversion, the entire amount converted will be included in gross income in the year of the conversion. Since no actual distribution is being made from the Plan, no withholding will apply to the in-plan conversion. If you elect to convert to Roth contributions, you should be sure you have adequately withheld amounts from your regular pay based on the additional taxes owed as a result of the Roth conversion. You may want to increase your withholding or make an estimated tax payment to avoid any potential penalties for underpayment of taxes when filing your federal tax return. You should discuss the specific tax consequences with your tax advisor.

4. ***Who is eligible to elect an in-plan Roth conversion?***

To the extent allowed under the plan, current or terminated participants with vested account balances under the plan may elect to make an in-plan Roth conversion. Spousal death beneficiaries and alternate payees under a qualified divorce decree are also eligible to make in-plan Roth conversions.

5. ***What is a "qualified distribution" of Roth deferrals?***

The main advantage of making Roth contributions or a Roth conversion is that the entire amount of the distribution is not subject to income tax, including earnings which have never been taxed. This is true whether such amounts were contributed as Roth deferrals or are part of a Roth conversion. To be a qualified distribution, you must wait at least five years from the date you make the first Roth deferral to the plan. For example, if you began making Roth deferrals on January 1, 2009, the 5-year rule would be satisfied as of January 1, 2014, for all Roth deferrals under the plan. The five-year period begins on January 1 of the year you make your first Roth contribution, whether as a conversion or regular Roth contribution.

6. ***Is making a Roth conversion a good idea?***

There is no easy answer to this question. If you anticipate that your tax rate will be higher at the time of distribution, Roth deferrals may be a better option since you will be paying taxes currently at a lower rate than you would upon distribution of pre-tax deferrals. However, you will also lose the ability to invest the amount attributable to the taxes paid to the IRS.

The other major advantage of making a Roth conversion is to allow the Roth conversions to grow tax free (including any earnings on those converted amounts). If you take a distribution that satisfies the requirement for a qualified distribution, as defined in Q-4 above, you will be able to avoid paying taxes on the earnings associated with the Roth contributions. The ability to withdraw the Roth contributions without having to include such amounts in income can result in significant tax savings.

A careful analysis should be done of your personal saving habits, economic position, and expected tax rates before deciding whether Roth contributions or a Roth conversion will provide a greater after-tax distribution at retirement. In addition, you should examine the effect of the additional income on your overall tax liability. Since you will need to include in income the fair market value of the amount converted to Roth contributions, you may want to increase your withholding or make an estimated tax payment to avoid any potential penalties for under-withholding. The decision to make a Roth conversion is irrevocable once made, so careful consideration should be made before you elect to make a Roth conversion. You should consult with your tax advisor about the advantages and disadvantages of a Roth conversion.

7. *How do I elect to convert my pre-tax contributions to Roth contributions?*

If you are interested in converting your pre-tax contributions to Roth contributions, you may request an In-Plan Conversion Form from the Plan Administrator. See your Summary Plan Description for the name and address of the Plan Administrator.