

Tax Notice Regarding Distributions—Puerto Rico

Your Rollover Options

You are receiving this notice because all or a portion of a distribution from the Puerto Rico Clergy Retirement Security Program and/or the Puerto Rico Methodist Personal Investment Plan (a Plan) you are receiving from Wespath Benefits and Investments (Wespath) is eligible to be rolled over to an IRA (an individual retirement account or individual retirement annuity), as defined in Puerto Rico Internal Revenue Code (PRIRC) section 1081.02, established in Puerto Rico or an eligible employer plan as defined in the PRIRC section 1081.01. This notice is intended to help you decide whether to do such a rollover.

Rules that apply to most Plan distributions are described in the “General Information About Rollovers” section. Special rules that only apply in certain circumstances are described in the “Special Rules and Options” section.

General Information About Rollovers

How Can a Rollover Affect My Taxes?

Unless an exemption applies, you will be taxed on a distribution from a Plan if you do not roll it over. However, if you do roll over your distribution to another eligible employer plan or IRA, you will not have to pay tax until you receive distributions from the other plan or IRA.

Where May I Roll Over the Plan Distribution?

You may roll over the Plan distribution to an IRA or an eligible employer plan under PRIRC section 1081.01 that will accept the rollover. The IRA must meet the requirements of PRIRC section 1081.02 and be located in Puerto Rico. The eligible employer plan must be a tax-qualified retirement plan under PRIRC section 1081.01. 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 rollover distribution directly to your designated IRA or eligible employer plan. You should contact the IRA custodian or the administrator of the eligible employer plan to confirm that they will accept a direct rollover. That information and contact information for the IRA custodian or eligible employer plan administrator should be forwarded to Wespath with your direct rollover application.
- **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 Plan distribution from Wespath to make the deposit in the other plan or IRA of all or a portion of the rollover-eligible distribution. If you do not do a direct rollover, the Plan is required to withhold 20% of the Plan distribution for income taxes. This means that in order to roll over the entire Plan distribution 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 Plan distribution, the portion not rolled over will be taxed as ordinary income.

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. If you request a partial distribution of your account balance, you may either rollover the entire partial distribution or the entire before-tax portion of the distribution. You may not rollover only a portion of the before-tax portion of the partial distribution.

Special Rules and Options

If Your Plan Distribution Includes After-Tax Contributions

After-tax contributions included in a Plan distribution are not taxed. If a Plan distribution is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the Plan distribution. If you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a Plan distribution. After-tax amounts that have been separately accounted for may also be distributed first. Contact Wespeth to determine what portion of your Plan distribution is after-tax. If you do a 60-day rollover to an IRA of only a portion of the distribution made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit, which totals \$12,000, of which \$2,000 is after-tax contributions. In this case, if you roll over \$10,000 to an IRA in a 60-day rollover, no amount is taxable because the \$2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over a Plan distribution that includes after-tax contributions to an IRA or an eligible employer plan through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of after-tax contributions in all of your IRAs (in order to determine your taxable income for later distributions from the IRAs). In the case of an after-tax rollover to an eligible employer plan, you must make sure that the plan is willing and able to separately account for any after-tax amounts that are rolled over.

If You Have an Outstanding Loan That Is Being Offset

If you have an outstanding loan from the Plan, your Plan benefit may be offset by the amount of the remaining unpaid balance of the loan, typically when your employment ends. The loan offset amount is treated as a distribution to you at the time of the offset and will be taxed unless you do a 60-day rollover of the amount of the loan offset to an IRA or employer plan.

If You Are Not a Plan Participant

Plan Distributions After Death of the Plan Participant

If you receive a Plan distribution after the participant's death that you do not roll over, the Plan distribution will generally be taxed in the same manner as described elsewhere in this notice.

If You Are a Surviving Spouse

If you receive a distribution 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 elect not to roll over the participant's account balance from the Plan, then you must begin to take required minimum distributions as required by the Plan by December 31 of the later of:

- the year following the year of the participant's death, or
- the year in which the participant would have attained between age 70½ and 75, depending on your birth date.¹

If You Are an Eligible Designated Beneficiary²

If you receive a distribution from the Plan as an Eligible Designated Beneficiary of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice.

If you elect not to roll over the participant's account balance from the Plan, then you must begin to take RMDs as required by the Plan. If the participant dies before the required beginning date, and no election was made prior to the participant's death, you will begin receiving RMDs. To receive annual RMDs over your life expectancy, you must make the election and begin receiving RMDs no later than December 31st following the year the participant died. If this election is not made by this date, you must deplete the entire account by December 31st of the 10th year following the participant's death.

¹ Effective January 1, 2024, if the participant dies before their required beginning date and you are the sole beneficiary of the participant's retirement accounts, you may make an election to be treated as the participant for RMD purposes.

² An Eligible Designated Beneficiary is a beneficiary who is disabled as defined in US Internal Revenue Code Section 72(m)(7), a beneficiary who is chronically ill as defined in US Internal Revenue Code Section 7702B(c)(2), a beneficiary who is not more than 10 years younger than the participant, or a beneficiary who is a minor child (until they reach the age of majority).

If You Are a Surviving Beneficiary Other Than a Spouse or Eligible Designated Beneficiary

If you receive a distribution from the Plan because of the participant's death and you are a designated beneficiary other than a surviving spouse or Eligible Designated Beneficiary, you have the same distribution options that the participant would have had, as described elsewhere in this notice.

If you elect not to roll over the participant's account balance from the Plan, then, as required by the terms of the Plan you must take a distribution of the participant's entire account balance in one or more distributions by December 31 of the fifth year following the year of the participant's death (if the participant died prior to January 1, 2020) or by December of the tenth year following the year of the participant's death (if the participant dies on or after January 1, 2020).

Plan Distributions Under a QDRO

If you are the spouse or former spouse of the participant and you receive a distribution from the Plan under a qualified domestic relations order (QDRO), you generally have the same options the participant would have had (for example, you may roll over the plan distribution to your own IRA or an eligible employer plan that will accept it).

Other Special Rules

If your Plan distributions for the year are less than \$200, the Plan is not required to allow you to do a direct rollover. However, you may do a 60-day rollover.

Distributions from retirement plans that invest at least 10% of their assets in qualifying Puerto Rico assets are entitled to only a 10% tax rate and have only 10% withholding on lump sum distributions. The Plans do not meet this condition, but some other plan might, and a rollover to such a plan for at least three years could qualify you for this lower tax rate.

For More Information

You may wish to consult with Wespeth or a professional tax adviser before taking a distribution from the Plan.