Church Extension Plan

LIFE REWARDS™

Ministers Retirement Plan

Special Tax Notice

REGARDING YOUR BENEFIT PAYMENTS

PO Box 12629 Salem, OR 97309
T (503) 399-0552 (800) 821-1112 F (503) 581-3237
www.cepnet.com

Introduction

Please read this special notice carefully. It explains how you can continue to defer federal income tax on your retirement savings in the Life Rewards Ministers Retirement Plan and contains important information that you will need before you decide how to receive your benefits.

We are giving you this notice because all or part of the benefit payment you will soon receive from Life Rewards is either:

1. Eligible for a tax-free rollover into a traditional IRA or an eligible retirement plan; and/or
2. Subject to income tax withholding.

This notice contains important information and helpful tips you need to know, such as how to avoid 20 percent income tax withholding on your benefit payment by rolling it over, tax-free, into an IRA or another plan. The tax rules are complicated — there's no doubt about that. But you need to take the time to learn about them. This way, you can make the choices that are right for you and you can avoid paying unnecessary taxes.

Your distribution will be processed in accordance with your election as soon as practical after the Life Rewards' Plan Administrator receives your election.

If you have additional questions after reading this notice, you can contact the Life Rewards' Plan Administrator at (503) 399-0552 or (800) 821-1112.

To help walk you through the tax rules, this notice is organized as follows:

Part 1. Key Words You Need To Know

The following phrases are used throughout this summary. This part explains what they mean.

Eligible Retirement Plan
This is any of the following

- 401(k) plan
- Profit-sharing plan
- Pension plan
- Stock bonus plan
- 403(a) annuity plan
- 403(b) tax-sheltered annuity plan
- 457(b) plan, but only if maintained by a governmental employer

Traditional IRA
This is the type of IRA where you can take a tax deduction for your contributions. It does not include any of the following;

- Roth IRA
- SIMPLE IRA
- Coverdell (education) IRA

Rollover
This is the deposit of some or all of your benefit amount into either your Traditional IRA or your new employer's eligible retirement plan.

Direct Rollover
This is a rollover that is paid directly to either your Traditional IRA or your new employer's eligible retirement plan.

Do-It-Yourself Rollover
This is when the distribution check is made payable to you and you deposit it yourself into your Traditional IRA or your new employer's eligible retirement plan.

Eligible Rollover Distribution
This is a benefit payment that can be rolled over into a Traditional IRA or to a new employer's eligible retirement plan.

The following types of payments **can** be rolled over:

- Lump-sum distributions
- Single withdrawals
- Installments; only when the payout period is under ten years

The following types of payments **cannot** be rolled over:

- Required minimum distributions beginning when you reach age 70½ or retire, whichever is later
- Hardship distributions
- Installments with payout periods of ten years or more
- Tax-free housing allowance distributions

Part 2. Summary Of Rollover And Withholding Rules

A. Summary Of Rollover Rules

As a general rule, your benefit payments are taxable as ordinary income in the year you receive them. For payments that qualify as eligible rollover distributions, you can defer that tax as well as the tax on any future earnings by making a rollover into a Traditional IRA or your new employer's retirement plan (if it accepts rollovers). As explained below, unless you make a direct rollover, a mandatory withholding of 20 percent will apply to your distribution.

There are three ways you can have your benefit paid —

1. Directly to you
2. As a "Direct Rollover"
3. In part directly to you with the rest paid as a "Direct Rollover"

The option you choose will affect the tax you owe as explained below.

If you choose to have your benefits PAID DIRECTLY TO YOU:

Your benefit payment check will be made payable to you.

You will receive only 80 percent of your benefit, because we are required to withhold 20 percent of your benefit and send it to the IRS as income tax withholding. The IRS will credit this amount toward the actual federal income taxes that you owe. (See the Supplement to this notice for information regarding state income tax withholding.)

Your payment will be taxed in the year you receive it unless you make a "Do-It-Yourself Rollover" (explained below).

If you choose a DIRECT ROLLOVER:

Life Rewards will transfer your benefit payment directly to your Traditional IRA or to your new employer's eligible retirement plan (if that plan accepts rollovers). Your benefit cannot be rolled over into a Roth IRA, a SIMPLE IRA or a Coverdell (education) IRA because these are not traditional IRAs.

Your benefit will not be taxed in the current year and no income tax will be withheld.

Your benefit will be taxed later when you withdraw it from your Traditional IRA or your new employer's eligible retirement plan. Depending on the type of eligible retirement plan, this later distribution may be subject to different tax treatment than it would receive under this Plan.

If you receive your payment before age 59½, you may have to pay an additional 10 percent tax as an early withdrawal penalty.

You can make a "Do-It-Yourself Rollover" by depositing your payment check into your Traditional IRA or into your new employer's eligible retirement plan (if it accepts rollovers). You must deposit your check within 60 days after you receive it. The amount rolled over will not be taxed until you withdraw it from your Traditional IRA or your new employer's plan.

If you want to make a "Do-It-Yourself Rollover" of the full amount that was in your vested account in our Plan, you must find other money to replace the 20 percent we had to deduct for federal income tax withholding. If you roll over only the 80 percent that you receive, you will be taxed on the 20 percent that was withheld and not rolled over.

If you choose a PART DIRECT ROLLOVER/PART DIRECT PAYMENT TO YOU:

The part of the payment that you choose to make as a direct rollover will be handled under the direct rollover rules summarized above.

The rest of your payment will be taxed as a payment made directly to you under the rules summarized above.

B. Summary Of Withholding Rules

1. Direct rollovers. Direct rollovers are not subject to federal or state withholding.
2. Hardship withdrawals. Hardship withdrawals are subject to 10 percent federal withholding and state withholding (8 percent for Oregon residents). You may elect to waive federal withholding. You may be able to waive state withholding also.
3. Lump sum. For any distribution or portion thereof that you are taking under Options A, B (if your payout period is less than 10 years) or C of Part 3, you will be subject to federal withholding of 20 percent and state withholding (8 percent for Oregon residents). You may be able to waive your state (but not federal) income tax withholding.
4. Single withdrawal option. Same as for Lump-sum distribution.
5. Installment payments over less than ten years. Same as for Lump-sum distribution.
6. Installment payments over ten years or more. For installment payments with a payout period of ten or more years, you will be subject to federal and state regular wage withholding. Unless you elect otherwise on your Benefit Payment Election Form, your federal withholding will be taken out as if you were married claiming three exemptions. For Oregon residents, unless you elect otherwise on your Benefit Payment Election Form, your state withholding will be taken out as if you are single claiming no exemptions. You may waive federal withholding for these installment payments. You may be able to waive state withholding also.
7. Tax-Free Housing Allowance. Distributions taken as a tax-free housing allowance are not subject to federal and state withholding.

If you elect to waive withholding, please be aware that you are still obligated to pay income taxes on your distribution, unless you are making a direct rollover or, for ministers, to the extent your distribution is a tax-free housing allowance. You may also be subject to penalties for underpayment of estimated taxes if your estimated tax payment and withholding are not sufficient. Your withholding election will remain in effect until you revoke it. You may revoke your election at any time by completing another Benefit Payment Election Form.

Part 3. Detailed Information

A. Direct Rollovers

A direct rollover is a direct payment of your benefit to a Traditional IRA or your new employer's eligible retirement plan (if that plan accepts rollovers). You can choose a direct rollover for all or any portion of your benefit.

A direct rollover avoids both the 20 percent mandatory federal income tax withholding and the additional 10 percent early withdrawal penalty tax (before age 59½). If you choose a direct rollover, you are not taxed on the payment until you withdraw it from the Traditional IRA or your new employer's plan.

For a direct rollover, Life Rewards sends your benefit payment directly to the IRA sponsor or the trustee of your new employer's plan.

How to Make a Direct Rollover to a Traditional IRA

You will need to have a Traditional IRA in place to receive the direct rollover. (A "Traditional IRA" can be either an Individual Retirement Account or an Individual Retirement Annuity.) You can set up a Traditional IRA with a bank, insurance company or brokerage firm.

If you are unsure about how to invest your money, you can temporarily establish a Traditional IRA to receive your benefit payment. However, if you are going to do this, you should consider choosing a Traditional IRA that will allow you to move all or part of your payment to another Traditional IRA at a later date without penalties or other restrictions.

For more information on IRAs (including the limits on how often you can roll over between IRAs), see IRS Publication 590, Individual Retirement Arrangements.

How to Make a Direct Rollover to Your New Employer's Plan

If you want to make a direct rollover to your new employer's eligible retirement plan, ask the administrator of that plan whether it will accept your rollover. Retirement plans are not required to accept rollovers, and not all of them do. If your new employer's plan does not accept rollovers, you can make a direct rollover to a Traditional IRA instead.

You should also ask the plan's administrator whether there will be any restrictions on when and how you can take your rollover amounts out of that plan. For example, you may need your spouse's consent, which would not be required if you had rolled your funds into an IRA instead.

You should find out this information before you make your election to roll your benefits into your new employer's plan.

B. Payments Made Directly To You

If you elect to have all or part of your benefit paid directly to you, it will be taxed in the year you receive it. You can avoid being taxed by making a direct rollover to a Traditional IRA or to your new employer's eligible retirement plan. (The Do-It-Yourself rollover rules are explained below.) However, if you did not elect to make a direct rollover, we are required to withhold 20 percent of your benefit for federal income tax withholding as explained below.

Mandatory Withholding

If your payment qualifies for a rollover and the check is made payable to you rather than to the trustee or custodian of an IRA or an eligible retirement plan, we are required by law to withhold 20 percent of your benefit. The 20 percent withheld is sent to the IRS to pre-pay your federal income tax on your distribution.

> *Example:* Your vested account balance is $10,000 and you elect to have the distribution check made payable to you. We have to take out $2,000, which is 20 percent of your benefit, as federal income tax withholding. So, instead of receiving a check for $10,000, you will receive a check for $8,000.
>
> When you prepare your income tax return for the year, you must report the full $10,000 as your taxable payment from the Plan. However, you also report the $2,000 that was withheld as a prepayment against any income tax you owe for the year.

Do-It-Yourself Rollovers

Even if you have your benefit payment paid directly to you instead of making a direct rollover, you can still roll over part or all of your payment to a Traditional IRA or your new employer's eligible retirement plan (if it accepts rollovers). If you decide to make such a Do-It-Yourself Rollover, you must deposit the rollover amount into your Traditional IRA or new employer's plan within 60 days after you receive the payment from us. The part of your payment you roll over will not be taxed until you withdraw it from your Traditional IRA or your new employer's plan. The part you don't roll over is taxed in the year you received the payment.

If you have the check made payable to you, we must withhold 20 percent federal income tax. So, if you want to make a Do-It-Yourself Rollover of your entire benefit amount, you have to come up with, from your own pocket, the money to replace the 20 percent that was withheld. If you decide to roll over just the 80 percent that you received, the 20 percent that was withheld will be treated as a taxable distribution to you.

Regardless of whether you make a Do-It-Yourself Rollover of your entire benefit (the 80 percent you received plus the 20 percent from your own funds to make up for the withholding that was taken out) or just the 80 percent you received after withholding was taken out, you must complete the rollover within 60 days after you received your payment check from us.

> *Example:* Your total vested benefit is $10,000 and you choose to have the check made payable to you instead of making a direct rollover.
>
> You will receive a check for $8,000 and we will send $2,000 to the IRS as income tax withholding. Within 60 days after you receive your $8,000 check, you may make a Do-It-Yourself Rollover of your entire $10,000 benefit to either a Traditional IRA or your new employer's plan. To do this, you deposit the $8,000 check you received from Life Rewards, plus an additional $2,000 that you obtained from other sources (your savings, a loan, etc.). If you roll over the entire $10,000, it will not be taxed until you withdraw it from the Traditional IRA or your new employer's plan. Also, when you file your income tax return, you may get a refund of the $2,000 that was withheld, depending on how much other tax you owe.
>
> On the other hand, if you roll over only the $8,000 you actually received, you have to include the $2,000 as taxable income you did not roll over and, if you are under age 59½, you may also have to pay the 10 percent early withdrawal penalty tax discussed below. When you file your income tax return, you may get a refund of part of the $2,000 withheld if this caused you to over withhold for the year. (However, any refund is likely to be larger if you roll over the entire $10,000.)

Additional 10 Percent Tax if You Are Under Age 59½
If you receive a payment before you reach age 59½ and you do not roll it over, then, in addition to the regular income tax, you may have to pay a 10 percent early withdrawal penalty tax. This additional 10 percent tax does not apply if your payment is:

1. Made after you terminate employment during or after the year you reach age 55;
2. Made because you took disability retirement;
3. Used to pay certain medical expenses;
4. Paid directly to the government to satisfy a federal tax levy;
5. Paid to your beneficiary as a death benefit; or
6. Paid to an alternate payee under a qualified domestic relations order (see Section C below).

See IRS Form 5329, "Return for Additional Taxes Attributable to Qualified Retirement Plans," for more information on the 10 percent early withdrawal penalty tax.

C. Surviving Spouses, Alternate Payees And Other Beneficiaries

In general, the rules that apply to payments to participants also apply to payments to surviving spouses of participants and to spouses or former spouses who are "alternate payees" (see the explanation below). Some of the rules summarized above also apply to a deceased participant's beneficiary who is not a spouse. However, there are some exceptions for payments to surviving spouses, alternate payees and other beneficiaries that should be mentioned.

Surviving Spouses
If you are a surviving spouse, you have the same choices as a participant. You may choose to have your benefit payment either paid as a direct rollover to a Traditional IRA or to an eligible retirement plan (if it accepts rollovers), or you can have it paid to you. If the payment is made directly to you, you can keep it or you can make a Do-It-Yourself Rollover to a Traditional IRA or to an eligible retirement plan (if it accepts rollovers).

Alternate Payees

You are an "alternate payee" if you are entitled to receive payments from Life Rewards under a "qualified domestic relations order." This is an order issued by a court in a divorce or legal separation proceeding requiring spousal support or child support to be paid from your former spouse's or your parent's plan benefits. As an alternate payee, you have the same choices as the participant. You can have the payment paid as a direct rollover to a Traditional IRA or to your employer's eligible retirement plan (if it accepts rollovers), or you can have it paid directly to you. If you have it paid to you, you can keep it or you can make a Do-It-Yourself Rollover to a Traditional IRA or to your employer's eligible retirement plan (if it accepts rollovers).

Other Beneficiaries

If you are a beneficiary of a deceased participant, but you are not the surviving spouse or an alternate payee, you cannot choose a direct rollover and you cannot make a Do-It-Yourself Rollover.

10 Percent Early Withdrawal Penalty Tax Doesn't Apply

If you are a surviving spouse, an alternate payee or the beneficiary of a deceased participant, your payment is generally not subject to the additional 10 percent early withdrawal penalty tax described in Section B above, even if you are younger than age 59½.

Part 4. How To Obtain Additional Information

This notice summarizes the federal tax rules that apply to your payment. The Supplement to this notice covers the state tax rules that may apply. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. You may want to consult with a professional tax advisor before you take a benefit payment from Life Rewards. Also, you can find more detailed information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office, on the IRS's website at www.irs.gov or you can call (800) TAX-FORMS.