North American Company
for Life and Health Insurance

SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

This notice contains important information you will need before you decide how to receive your benefits from your tax-sheltered annuity (“TSA”).

SUMMARY

A payment from the TSA that is eligible for “rollover” can be taken in two ways. You can have all or any portion of your payment either 1) PAID IN A “DIRECT ROLLOVER” or 2) PAID TO YOU. A rollover is a payment of your TSA benefits to your individual retirement arrangement (IRA) or to another TSA. This choice will affect the tax you owe.

If you choose a DIRECT ROLLOVER:

- Your payment will not be taxed in the current year and no income tax will be withheld.
- Your payment will be made directly to your IRA or, if you choose, to another TSA that accepts your rollover.
- Your payment will be taxed later when you take it out of the IRA or the TSA.

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

- You will receive only 80% of the payment, because the payor is required to withhold 20% of the payment and send it to the Internal Revenue Service (IRS) as income tax withholding to be credited against your taxes.
- Your payment will be taxed in the current year unless you roll it over. However, if you receive the payment before age 59½, you also may have to pay an additional 10% tax.
- You can roll over the payment by paying it to your IRA or to another TSA that accepts your rollover within 60 days of receiving the payment. The amount rolled over will not be taxed until you take it out of the IRA or TSA.
- If you want to rollover 100% of the payment to an IRA or TSA, you must find other money to replace the 20% that was withheld. If you rollover only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER

Payments from the TSA may be “eligible rollover distributions.” This means that they can be rolled over to an IRA or to another TSA that accepts rollovers. Your tax advisor should be able to tell you what portion of your payment is an eligible rollover distribution. The following types of payments cannot be rolled over:

Payments Spread Over Long Periods. You cannot rollover a payment that is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- Your lifetime (or your life expectancy), or
- Your lifetime and your beneficiary’s lifetime (or life expectancies), or
- A period of ten years or more.

Required Minimum Payments. Beginning in the year you reach age 70½, a certain portion of your payment cannot be rolled over because it is a “required minimum payment” that must be paid by you.

II. DIRECT ROLLOVER

You can choose a direct rollover of all or any portion of your payment that is an “eligible rollover distribution” as described above. In a direct rollover, the eligible rollover distribution is paid directly from the TSA to an IRA or another TSA that accepts rollovers. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or the TSA.

Direct Rollover to an IRA. You can open an IRA to receive the direct rollover. (The term “IRA” as used in this notice, includes individual retirement accounts and individual retirement annuities.) If you choose to have your payment made directly to an IRA, contact an IRA sponsor (usually a financial institution or insurance company) to find out how to have your payment made in a direct rollover to an IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish an IRA to receive the payment. However, in choosing an IRA, you may wish to consider whether the IRA you choose will allow you to move all or a part of your payment to another IRA at a later date, without penalties or other limitations. See IRA Publication 590, Individual Retirement Arrangements, for more information on IRAs (including limits on how often you can rollover between IRAs).

Direct Rollover to a TSA. If you are employed by a new employer that has a plan, and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. An employer plan is not legally required to accept a rollover. If your new employer’s plan does not accept a rollover, you can choose a direct rollover to an IRA.

Direct Rollover of a Series of Payments. If you receive eligible rollover distributions that are paid in a series for less than ten years, your choice to make or not make a direct rollover for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

III. PAYMENT PAID TO YOU

If you have the payment made to you, it is subject to 20% income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another TSA that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding:

Mandatory Withholding. If any portion of the payment to you is an eligible rollover distribution, the payor is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if your eligible rollover distribution is $10,000, only $8,000 will be paid to you because the payor must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, you will report the full $10,000 as a payment from the plan. You will report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

Voluntary Withholding. If any portion of your payment is not an eligible rollover distribution but is taxable, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. To elect out of withholding, ask the Plan administrator for the election form and related information.

Sixty-day Rollover Option. If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to an IRA or another TSA that accepts rollovers. If you decide to roll over, you must make the rollover within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the IRA or the TSA.

You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the IRA or the TSA to replace the 20% that was withheld. On the other hand, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

Example: Your eligible rollover distribution is $10,000, and you choose to have it paid to you. You will receive $8,000, and $2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the $8,000, you may roll over the entire $10,000 to an IRA or TSA. To do this, you roll over the $8,000 you received from the Plan, and you will have to find $2,000 from other sources (your savings, a loan, etc.). In this case, the entire $10,000 is not taxed until you take it out of the IRA or TSA. If you rollover the entire $10,000, when you file your income tax return you may get a refund of the $2,000 tax withheld.

If, on the other hand, you roll over only $8,000, the $2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return you may get a refund of part of the $2,000 withheld. (However, any refund is likely to be larger if you roll over the entire $10,000.)

Additional 10% 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 an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax does not apply to your payment if it is (1) paid to you because you separate from service with your employer during or after the year you reach age 55, (2) paid because you retire due to disability, (3) paid to you as equal (or almost equal) payments over your life or life expectancy (or you and your beneficiary's lives or life expectancies), or (4) used to pay certain medical expenses. See IRS Form 5329 for more information on the additional 10% tax.

IV. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in the TSA results from a "qualified domestic relations order," which is an order issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized above also apply to a deceased employee'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.

If you are a surviving spouse, you may choose to have an eligible rollover distribution paid in a direct rollover to an IRA or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to an IRA but you cannot roll it over to a TSA. If you are an alternate payee, you have the same choices as the employee. Thus, you can have the payment paid as a direct rollover or paid to you. If you have it paid to you, you can keep it or roll it over yourself to an IRA or to another TSA that accepts rollovers. If you are a beneficiary other than the surviving spouse, you cannot choose a direct rollover, and you cannot rollover the payment yourself.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10% tax described in section III above, even if you are younger than age 59½.

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from the Plan. Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, Pension and Annuity Income, and IRA Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office or by calling 1-800-TAX-FORMS.

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