PROPOSED NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
"20 YEAR PENSION" CLASS SETTLEMENT

SPECIAL TAX NOTICE
REGARDING ADDITIONAL PLAN PAYMENTS

THIS NOTICE APPLIES TO YOU ONLY IF YOU ARE (i) A RETIRED CLASS MEMBER OR AN ALTERNATE PAYEE OF SUCH MEMBER; (ii) THE JOINT ANNUITANT OR TERM CERTAIN BENEFICIARY OF A DECEASED CLASS MEMBER; OR (iii) AN ALTERNATE PAYEE OF A DECEASED CLASS MEMBER.

THIS NOTICE DOES NOT APPLY TO YOU IF YOU ARE AN ACTIVE OR INACTIVE CLASS MEMBER OR AN ALTERNATE PAYEE OF SUCH MEMBER.

This notice explains how you can defer federal income tax on your Payment from TRS and contains important information for you to consider in deciding how to receive your TRS payment. **You should read this notice before completing the Direct Rollover Election Form For Additional Plan Payments**.

This notice is provided to you because all or part of the payment that you will soon receive as an additional payment from TRS may be eligible for rollover by you or TRS to an individual retirement account or annuity ("IRA") or an eligible employer plan. A rollover is a payment by you or TRS of all or part of your Payment to another eligible employer plan or IRA that allows you to continue to postpone taxation of that Payment until it is paid to you. Your Payment cannot be rolled over to a SIMPLE IRA or a Coverdale Education Savings Account (formerly known as an education IRA). An "eligible employer plan" includes (i) a plan qualified under Section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan and money purchase pension plan; (ii) a Section 403(a) annuity plan; (iii) a Section 403(b) tax-sheltered annuity; and (iv) an eligible Section 457(b) plan maintained by a governmental employer (i.e., a governmental 457 plan). Note that your Payment also can be rolled over to a Roth IRA subject to the same limits that apply to rollovers from a traditional IRA to a Roth IRA (*i.e.*, to be eligible in 2008 or 2009, your adjusted gross income cannot exceed $100,000, and you must not be married filing separately).

An eligible employer plan is not legally required to accept a rollover. TRS' TDA Program does not accept rollovers. Before you decide to roll over your Payment to another eligible employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. If an eligible employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse's consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from TRS. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

If you have additional questions after reading this notice, contact the TRS at ________________.

SUMMARY

There are two ways that you may be able to receive a TRS Payment that is eligible for rollover:

(1) Certain payments can be made directly to an IRA that you establish or to an eligible employer plan that will accept your rollover contribution ("DIRECT ROLLOVER"); or

(2) The payment can be PAID TO YOU.

If you choose a DIRECT ROLLOVER TO A TRADITIONAL IRA OR AN ELIGIBLE EMPLOYER PLAN:

- Your Payment will not be taxed in the current year and no income tax will be withheld. (See Special Rules For Rollovers to Roth IRAs below).
- You cannot choose a direct rollover for Payments of less than $200.
- You choose whether your Payment will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your Payment cannot be rolled over to a SIMPLE IRA or a Coverdell Education Savings Account because these are not traditional IRAs. (See Special Rules For Rollovers to Roth IRAs below).

- The taxable portion of your Payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from TRS.

  SPECIAL RULES FOR ROLLOVERS TO ROTH IRAs. Note that you can choose a rollover to a Roth IRA subject to the same limits that apply to rollovers from a traditional IRA to a Roth IRA (*i.e.*, for tax years prior to 2008 and 2009, your adjusted gross income cannot exceed $100,000 and you must not be married filing separately). If you make a rollover of your distribution to a Roth IRA, the taxable amount of your distribution will be included in your taxable income as if the distribution was not rolled over. A rollover of your distribution to a Roth IRA avoids the 10% tax on early distributions received prior to the date you reach age 59-1/2, become disabled, or retire under the terms of the 20 Year Pension Plan, subject to rules on conversions. **Note: TRS is not responsible for assuring your eligibility to make a rollover to a Roth IRA. You should consult your tax advisor if you are interested in rolling over your distribution to a Roth IRA.**

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

- You will receive only 80% of the taxable amount of the Payment, because TRS is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes. The amount withheld is credited against your taxes when you file your income tax return. The 20% withholding requirement is not an additional tax.
- If you receive the Payment before age 59-1/2 and do not roll it over, you may have to pay an additional 10% tax.
- You can roll over all or part of the Payment by paying it to your IRA or to an eligible employer plan that accepts your rollover **within 60 days** after you receive the Payment. The amount rolled over to a traditional IRA or eligible employer plan will not be taxed until you take it out of the traditional IRA or the eligible employer plan. However, TRS must still withhold 20% of the Payment when it is paid to you.
- If you want to roll over 100% of the Payment to a traditional IRA or an eligible employer plan, YOU MUST FIND OTHER MONEY TO REPLACE THE 20% OF THE TAXABLE PORTION THAT WAS WITHHELD. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

Your Right to Waive the 30-Day Notice Period.

Generally, neither a direct rollover nor a payment can be made from the Plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan Administrator.

MORE INFORMATION

I. DIRECT ROLLOVER

A DIRECT ROLLOVER is a direct payment of the amount of your TRS Payment to an IRA or an eligible employer plan that will accept it. You can choose a DIRECT ROLLOVER of all or any portion of your Payment that is an eligible rollover distribution, as described above. Except for a direct rollover to a Roth IRA, you are not taxed on any taxable portion of your Payment for which you choose a DIRECT ROLLOVER until you later take it out of the traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your TRS Payment for which you choose a DIRECT ROLLOVER.

DIRECT ROLLOVER TO AN IRA. You can open a traditional IRA or Roth IRA to receive the direct rollover. If you choose to have *your* Payment made directly to an IRA, contact an IRA sponsor (usually a financial institution) 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 make sure that 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 IRS Publication 590, *Individual Retirement Arrangements*, for more information on IRAs (including limits on how often you can roll over between IRAs).

DIRECT ROLLOVER TO A PLAN. If you are employed by another employer that has an eligible employer plan, and you want a direct rollover to that plan, ask the plan administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your other employer's plan does not accept a rollover, you can choose a direct rollover to an IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the plan administrator of that plan before making your decision.

II. PAYMENT PAID TO YOU

INCOME TAX WITHHOLDING. If your Payment can be rolled over and the payment is made to you in cash, it is subject to 20% federal income tax withholding on the taxable portion (state tax withholding may also apply). The Payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or an eligible employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

MANDATORY WITHHOLDING. If any portion of your Payment can be rolled over and you do not elect to make a DIRECT ROLLOVER, TRS is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable Payment of $10,000, only $8,000 will be paid to you because the Plan must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see "Sixty-Day Rollover Option" below), you must report the full $10,000 as a taxable payment from the Plan. You must report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your Payments for the year are less than $200.

SIXTY-DAY ROLLOVER OPTION. If you receive a Payment that can be rolled over, you can still decide to roll over all or part of it to an IRA or to an eligible employer plan that accepts rollovers. If you decide to roll over, *you must contribute the amount of the payment you received to an IRA or eligible employer plan within 60 days after you receive the payment*. Unless you roll over your distribution to a Roth IRA, the portion of your Payment that is rolled over will not be taxed until you take it out of the IRA or eligible employer plan. If you roll over to a Roth IRA, the distribution will be included in your taxable income for the year in which it was paid to you.

If you want to roll over a payment you received to a traditional IRA or eligible employer plan, you can roll over up to 100% of your payment (that is an eligible rollover distribution as explained above), including an amount equal to the 20% of the taxable portion that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the traditional IRA or the eligible employer plan, to replace the 20% that was withheld. On the other hand, if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

EXAMPLE: The taxable portion of your Payment that is an 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 a traditional IRA or an eligible employer plan. 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 traditional IRA or an eligible employer plan. If you roll over the entire $10,000, when you file your income tax return you may get a refund of part or all of the $2,000 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.) You may choose to have part of your Payment paid to you and part paid in a direct rollover to your IRA or to a qualified plan. However, the portion paid as a direct rollover must equal at least $500. In addition, if the taxable amount of your payment is $500 or less, you may not divide the payment and have part of it paid to you and part of it paid in a direct rollover.

ADDITIONAL 10% TAX IF YOU ARE UNDER AGE 59-1/2. If you receive a payment from the Plan before you reach age 59-1/2 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 generally does <u>not</u> apply to (1) payments that are paid after you separate from service with your employer during or after the year you reach age 55, (2) payments that are paid because you are totally and permanently disabled, (3) payments that are made as part of a series of substantially equal payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (4) payments that are paid directly to the government to satisfy a federal tax levy, (5) payments that are paid to an alternate payee under a qualified domestic relations order, or (6) payments that do not exceed the amount of your deductible medical expenses. See IRS Form 5329 and IRS Publication 575, *Pension and Annuity Income*, for more information on the additional 10% tax.

III. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

In general, the rules summarized above that apply to payments to members also apply to payments to surviving spouses of members and to spouses or former spouses who are "alternate payees." Note that although state law may recognize same-sex domestic partners, a spouse for federal tax law purposes must be a person of the opposite sex to whom you are married. You are an alternate payee if your interest in the 20 Year Pension Plan results from a "qualified domestic relations order," which is an order issued by a court, usually in connection with a divorce or legal separation. If you are a surviving spouse or an alternate payee, you may choose to have an eligible rollover distribution paid in a DIRECT ROLLOVER to an IRA or an eligible employer plan or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to an IRA or to an eligible employer plan. Thus, you have the same choices as the member.

If you are a beneficiary other than a surviving spouse or an alternate payee (a "non-spouse beneficiary"), you may choose to have an eligible rollover distribution (as described above), paid in a DIRECT ROLLOVER to an inherited IRA. An inherited IRA is an IRA established for the purpose of receiving the distribution on your behalf as the beneficiary of the member (e.g., Jane Smith as beneficiary of John Doe). You cannot choose a direct rollover to an eligible employer plan, and you cannot choose to rollover the payment yourself within 60 days. If you choose to have the distribution PAID TO YOU, the mandatory withholding rules described above will not apply to you.

If you are a surviving spouse, an alternate payee, or a non-spouse beneficiary, your Payment is generally not subject to the additional 10% tax described above, even if you are younger than age 59-1/2.

IV. CLASS MEMBERS UNDER AGE 62 WHO DO NOT RETURN THE DIRECT ROLLOVER ELECTION FORM AND WHOSE PAYMENT IS GREATER THAN OR EQUAL TO $1,000.

In the event you do not return the Direct Rollover Election Form, if you are a Retired Class Member under the age of 62 and you are receiving a Payment of $1,000 or more, TRS will deposit the Payment for such Class Members into Accounts ("Accounts") within TRS which maintain the same features as ITHP accounts except as otherwise specified herein. The Payments deposited in these Accounts will be invested in the TRS Stable-Value Fund (Variable B Annuity Program), which is a fund that invests primarily in Guaranteed Investment Contracts ("GIC's"), and shall remain in such Fund until such accounts are distributed pursuant to this paragraph. The Payment will remain in these Accounts in the Stable-Value Fund (Variable B Annuity Program) until the Retired Class Member notifies TRS of his/her intent to receive a distribution of the funds in his or her Account. When a Member for whom such an Account is created reaches age 62 or dies, whichever is earlier, TRS will make a good faith effort to contact the Member or his/her surviving beneficiaries, as applicable, and inform the Member or surviving beneficiary of his/her distribution options.

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 receive the Payment. Also, you can find more specific information on the tax treatment of payments from qualified employer 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 Internet Web Site at *www.irs.gov,* or by calling 1-800-TAX-FORMS.