

# **MEBT**

Municipal Employees' Benefit Trust

City of Bellevue Employee's Retirement Benefit Plan

## **Summary Plan Description**

September, 2002

Rev. July, 2003

Revised January 1, 2005

Prepared by Human Resources and the MEBT Plan Committee



September 2002

Dear City of Bellevue MEBT Participants:

The Municipal Employees' Benefit Trust Plan Committee is pleased to provide this Summary Plan Description (SPD) to help you understand the options for retirement savings available to you in MEBT. We encourage you to use it as a tool to better plan for your retirement. We recommend that you share it with your financial and tax advisors as you make choices about MEBT.

### **Important information about MEBT**

MEBT is a 401(k) plan, and your participation is voluntary. Some participants in MEBT have contributed diligently over their years of employment and have built a significant retirement asset for themselves while deferring current federal income taxes.

While you are employed at the City of Bellevue, regardless of your participation in MEBT, *you do not participate in Social Security, and you do not earn Social Security service credits*. Further, the Social Security Administration applies a formula containing an offset to take into account your employment with a nonparticipating employer. The Social Security offsets are explained further (see pages 28-29) within this document.

Having said that, we believe your MEBT account offers more flexibility than Social Security and enhances your ability to significantly save for your retirement.

Here is a very high-level overview of the Plan.

- MEBT is a defined-contribution plan. What you receive from MEBT is based on contributions and any earnings or losses and not on a guaranteed formula. Your contributions and the City's contributions and earnings/losses are held in an account in your name, and any earnings on your account grow tax-deferred. When you retire or leave, you receive your vested account balance.
- If you choose to participate in MEBT, you decide your level of participation and whether you will contribute on a pre-tax or after-tax basis.
- The City contributes to MEBT what it would have paid to Social Security. These contributions are allocated to you based on your match-eligible contributions. Historically, the City's match has been about 90%, or \$.90 for each \$1 you contribute in match-eligible contributions. City contributions vest, or belong to you, increasingly over time to full vesting after 10 years.
- You can continue to contribute beyond the match-eligible levels, subject to federal tax code limits.
- When you leave city service, your contributions, the vested portion of the City's contributions, plus investment earnings or losses allocated to your account belong to you or your beneficiaries.
- You can choose from a variety of distribution methods at separation.
- If, while you are still working, you encounter a severe financial hardship, you may qualify for a hardship withdrawal from your MEBT account. You also may take a withdrawal from your after-tax and rollover contributions without a hardship. However, you are not able to repay these withdrawals.
- Professional investment managers, upon the direction of the MEBT Committee, invest contributions in a diversified portfolio (60% equities; 40% bonds).

## **Important information about this Summary Plan Description (SPD)**

- There are seven suburban member-cities in MEBT. Each city has its own plan, but all participate in a single trust. This SPD covers Bellevue's MEBT Plan provisions only. Where "MEBT" is used, it refers to the Bellevue Plan.
- This SPD covers the MEBT Retirement Benefit Plan for MEBT I participants. There is a separate Summary Plan Description for the MEBT Survivor & Disability Plan that is produced by the insurance company providing the benefits.
- This SPD is a summary only. If there is a conflict between this SPD and the Plan document, the Plan document will govern in all cases. Contact Human Resources if you have questions about this SPD or if you need forms or a copy of the Plan.
- While the City currently intends to maintain MEBT indefinitely, the MEBT Plan contains a provision allowing amendments, modifications or discontinuance of the Plan.
- This is a governmental plan and therefore is not subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The MEBT Plan Committee is composed of five City of Bellevue employees. We hire a team of professionals to assist with the administration of the Trust. We invite you to attend MEBT Committee meetings, and we encourage you to share your ideas. Meeting times and locations are included in the quarterly MEBT newsletter and posted on the Intranet for current employees.

If you become a participant in MEBT, you will receive quarterly account statements reporting your account balances. If you are an active employee, you can monitor the Trust's performance more frequently through monthly "flash" reports posted on the City's Intranet.

We invite your feedback on the SPD or any of our outreach activities. To ask questions or offer suggestions, please contact one of the MEBT Committee members or Jill David, Retirement Services Manager, (425) 452-7676.

If you have general questions about MEBT or other City of Bellevue Retirement Benefits, contact Retirement Services in Human Resources at (425) 452-7198.

Sincerely,

The MEBT Bellevue Plan Committee:  
Ed Oberg, Chair, City Manager's Office  
Mike Eisner, Secretary, Fire Department  
John Backman, Planning & Community Development Department  
Doran Beauclair, Transportation Department  
Randy Holmes, Utilities Department



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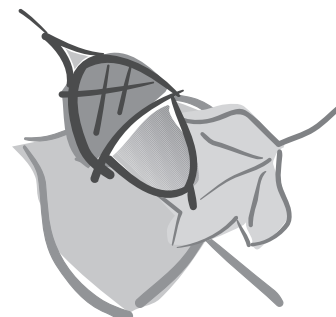
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# About the MEBT Retirement Benefits Plan

## Background

### Why does the City of Bellevue offer the Municipal Employees' Benefit Trust?

In 1970, the federal government gave all governmental organizations a window of time to decide whether to continue participating in Social Security for employee retirement and insurance or to offer an alternative plan. MEBT was designed to provide such a plan to equal or exceed expected Social Security benefits.

Effective September 30, 1972, City of Bellevue employees voted to withdraw from Social Security, and to participate in the Municipal Employees Benefit Trust. Today Edmonds, Federal Way, Kirkland, Mill Creek, Redmond and Woodinville also participate in this Trust, with somewhat varying retirement and benefit program elements.

### Social Security and MEBT compared

Similar to Social Security, MEBT provides retirement benefits, survivor-income benefits and long-term disability benefits. If you were hired at the City of Bellevue after April 1, 1986, you are required to contribute to Medicare, a part of Social Security.

Unlike Social Security, your MEBT account balance grows based on the level of dollars you contribute, earnings or losses from market performance, and any City contributions made to the Trust and allocated to your account. When you separate from the City of Bellevue for retirement or any reason, you (or your beneficiaries) will have several options for how your MEBT account is paid to you. In contrast, Social Security pays you or your surviving spouse a defined retirement benefit only, based on a formula.

Another difference is that MEBT pays your entire remaining retirement account balance to your beneficiaries after your death.

### MEBT encompasses two different plans

The City of Bellevue MEBT Plan has two parts:

- **The City of Bellevue Employees' Retirement Benefit Plan** – to help you save for retirement, covered in this Summary Plan Description (SPD), and
- **The City of Bellevue Employees' Survivor & Disability Benefits Plan** – to provide income to your eligible survivors if you should die while covered under the Plan and to provide income in case of a disability that prevents you from working. If you are eligible for the MEBT Plan, you are covered automatically under the City of Bellevue Employees' Survivor & Disability Benefits Plan, even if you don't enroll in the MEBT Retirement Benefits Plan. The details of this plan are included in a different Summary Plan Description produced by the insurance company providing these benefits.

### Contribute before and/or after taxes to MEBT

The City of Bellevue Employees' Retirement Benefit Plan has two retirement savings options: pre-tax (tax-deferred) and after-tax accounts. To participate, you must be eligible, enroll and contribute at least the minimum required contribution. Based upon your level of participation, you will receive an allocation of the City's contribution to your account.

## Other retirement savings plans offered by the City of Bellevue

The City provides the MEBT Retirement Benefit Plan to you in addition to state-required retirement plans, PERS (Public Employees' Retirement System) or LEOFF (Law Enforcement Officers and Fire Fighters' Retirement System). PERS and LEOFF are mandatory plans to which you must contribute. These plans satisfy the federal Social Security replacement requirements. In addition to MEBT, the City offers you a choice of two Deferred Compensation Section 457 Plans, currently available through the ICMA Retirement Corporation or Nationwide Company.

This Summary Plan Description will not describe PERS, LEOFF or the Deferred Compensation Section 457 plans in detail. These other Plans are mentioned here only when they affect the MEBT Retirement Benefit Plan. Contact Human Resources for details about the PERS, LEOFF and 457 Plans.

## How does the MEBT Plan work?

The City of Bellevue Municipal Employees' Retirement Benefit Plan is a voluntary 401(k) retirement-savings plan. If you are eligible, you may participate by making a contribution of at least 0.765% of your compensation if you were hired before April 1, 1986, and at least 0.62% if you were hired after April 1, 1986. You may contribute pre-tax and/or after-tax, up to the statutory Deferral Limits and Annual Additions Limits described on page 9. The City partially matches your eligible contributions as described on pages 11-12. Your contributions and the City's are invested in a professionally managed, diversified Pooled Trust. The Trust Committee, with input from the Investment Advisory Committee, makes investment decisions about the Trust. The Trust Committee also serves as the Bellevue Plan Committee. The Plan Committee makes decisions related to the specific administration of the Bellevue Plan.

## Why do most employees participate in MEBT?

Most City of Bellevue employees participate because of the following financial advantages:

1. **To save for retirement** — MEBT is a flexible retirement savings plan. While you are employed at the City of Bellevue you are not earning Social Security credit. (For more information about how MEBT affects other Social Security earnings, see Special Circumstances, pages 28-29.)
2. **To protect family members** — MEBT provides benefits if you should become disabled or die. Should either event occur, your City Contributions Account becomes fully vested. Whereas Social Security has a maximum defined benefit ratio for beneficiaries, MEBT allows all of your retirement account to be distributed to your beneficiaries.
3. **To receive City contributions** — The City makes contributions to MEBT based on your pay, at the same rate it would have paid to Social Security, regardless of your participation in MEBT. City contributions first are applied to pay premiums for Survivor Life and Long-Term Disability benefits and other expenses of the Plan. You receive an allocation of the City contribution based upon your level of contribution, but only if you participate. If you do not enroll and participate fully in MEBT, your City contributions are shared by other City of Bellevue employees who do.
4. **To reduce current taxes** — Your pre-tax contributions to MEBT reduce your current tax liability. Any earnings on your contributions, pre-tax or after-tax, also will be tax-deferred.



## **Who is eligible to participate and when?**

To participate in MEBT, you must meet one of the following criteria:

- You are a regular status employee (as defined in the Human Resources Code Section 3.79, as amended)
- You are a City Councilmember
- You are an employee designated as eligible for MEBT by the City Council (currently Limited Term, Training, and Transitional Employees)

All others are not eligible to participate. You are eligible to participate as soon as you are hired into an MEBT-eligible position.

## **How and when can I enroll in MEBT?**

Beginning with your hire date, you may sign up at any time by submitting a completed Enrollment form and Beneficiary Designation form, available through Human Resources. Most employees enroll soon after they are eligible to participate.

There are no set open enrollment periods or deadlines by which you must enroll. You will be asked to complete an Enrollment form, even if you decide not to participate to document your decision. The sooner you enroll, however, the sooner you will receive City contributions to your account—and the faster your account will grow.

## **When will my MEBT contributions be deducted from my pay?**

If you sign up for MEBT between the 1st and 15th of the month, your payroll deductions will start on the 20th of the month. If you sign up for MEBT between the 16th and the last day of the month, your payroll deductions will start on the 5th of the following month.

## **How do I designate or change a beneficiary?**

You designate a beneficiary (or beneficiaries) when you enroll in MEBT by completing the Beneficiary Designation form. This will tell the Plan Committee to whom you want your account paid in the event of your death. If you fail to designate a beneficiary(ies) by completing a form, your account balance may not be paid to the person(s) you want to receive it.

If you are married, you must designate your spouse as your primary beneficiary. If you want to designate someone other than your spouse, your spouse must sign the consent section of the Beneficiary Designation form and his/her signature must be notarized. If you marry after you complete the form, you need to fill out a new form (your old form becomes invalid). Your new spouse automatically will become the primary beneficiary unless he/she signs the waiver.

If you have a family change, such as the birth of a child or a divorce, or want to change your beneficiary designation, you should submit a new Beneficiary Designation form.

## **How can I track the performance of my MEBT account?**

Many City of Bellevue employees check the preliminary overall monthly performance of MEBT by viewing the “flash” report posted on the Intranet. Each quarter you will receive an MEBT Retirement Benefit Plan statement showing your individual account activity, including contributions, withdrawals, investment earnings or losses, and your account balances. Your contributions are tracked in five separate accounts, based on taxation rules:

1. **Tax-Deferred Account** — Your tax-deferred employee contributions are deducted from your paycheck before income tax withholding is calculated, deferring your taxes on that money and any earnings until you take a withdrawal from your account. This account includes any extra tax-deferred contributions you make above 7.65% of your compensation (or 6.2% if hired on or before 4/1/86).

2. **After-Tax Basic Account** — Your basic after-tax employee contributions (up to 7.65% of your compensation or 6.2% if hired on or after 4/1/86) are deducted from your paycheck after income tax withholding is calculated. Only the earnings on these contributions are tax-deferred.

<b>Sample Quarterly Statement</b>		<b>MEBT</b>		
		Statement of Account For the Period Ended 06/30/2002		
<b>SUMMARY BY ACCOUNT</b>				
	MEBT Fund	Money Market Fund	Total Balance	Vested Balance
Tax-Deferred Account	\$ 33,521.60	\$ 0.00	\$ 33,521.60	\$ 33,521.60
After-Tax Basic Account	0.00	0.00	0.00	0.00
After-Tax Extra Account	0.00	0.00	0.00	0.00
Rollover Account	0.00	0.00	0.00	0.00
MEBT II Contribution Account	0.00	0.00	0.00	0.00
City Contribution Account	27,306.43	0.00	27,306.43	27,306.43
<b>Total Balance as of 06/30/2002</b>	<b>\$ 60,828.03</b>	<b>\$ 0.00</b>	<b>\$ 60,828.03</b>	<b>\$ 60,828.03</b>
MEBT Fund Units	6,538			
Unit Value as of 06/30/2002	\$9.30			
You are 100% vested in your City Contribution Account.				
The Money Market Fund is only for MEBT II (partially benefited) employees and those MEBT participants within three years of retirement who have elected to transfer funds into this fund.				

3. **After-Tax Extra Account** — Your extra after-tax employee contributions (above 7.65% of your compensation or 6.2% if hired on or after 4/1/86) are deducted from your paycheck after income tax withholding is calculated. Only the earnings on these contributions are tax-deferred.

4. **Rollover Account** — Money you have rolled over from a previous employer's retirement plan into MEBT. Rollover contributions plus earnings are tax-deferred.

5. **City Contribution Account** — The City's contributions to your account plus any earnings are tax-deferred. You vest in this account over time.

## How and when can I change my contributions?

You can change the percentage of your contributions—in total, or how they are allocated—between pre-tax and after-tax at any time. To do so, complete the MEBT Enrollment/Change form, available from Human Resources, and a Payroll Change Notice (PCN), available from your time-keeper. Your change will be effective the next pay period following receipt of your form.

## When do I become vested, and what does it mean?

“Vested” is a word for ownership. The portion of your benefit in which you are “vested” is the portion you can take with you when you leave employment with the City. You are always 100% vested in your own employee contributions to MEBT.

MEBT has a 10-year vesting schedule that applies to contributions made by the City. After 12 months

of participation, you become 10% vested in your Employer Account, and your vesting increases at 0.8333% per month (10% per year) after that. After ten years you become 100% vested in your employer contributions. You earn vesting credit only during the months you are actively participating in MEBT.

You will become 100% vested prior to ten years of service if, while employed by the City, you die, become disabled or are laid off. (Limited Term Employees do not become 100% vested at lay off.)

You also become 100% vested when you reach your Normal Retirement Date (the earlier of age 65 or the earliest service retirement date under any other retirement benefit program to which the City contributes on your behalf). See chart that follows for PERS and LEOFF current retirement dates for 2002.

If you separate from the City prior to 10 years of participation for any other reason, you will forfeit the unvested portion of your City contributions, based on the vesting schedule.

Current Retirement Dates under PERS and LEOFF		
	Earliest Service Retirement (may have reduced benefits)	Normal Retirement
PERS 1	Not available	<ul style="list-style-type: none"> <li>• Age 60 with 5 years of service</li> <li>• Age 55 with 25 years of service</li> <li>• Any age with 30 years of service</li> </ul>
PERS 2	Age 55 with 20 years of service	<ul style="list-style-type: none"> <li>• Age 65 with 5 years of service</li> </ul>
PERS 3	Age 55 with at least 10 years of service credit.	<ul style="list-style-type: none"> <li>• Age 65 with at least 10 years of service</li> <li>• Age 65 with 5 years of service, if at least 12 months were earned after reaching age 64</li> <li>• Age 65 with 5 years of service credit earned under PERS 2 by 6/1/03 and then transferred to PERS 3</li> </ul>
LEOFF 1	Not available	<ul style="list-style-type: none"> <li>• Age 50 with 5 years of service</li> </ul>
LEOFF 2	Age 50 with 20 years of service	<ul style="list-style-type: none"> <li>• Age 53</li> </ul>

### **Illustration: Graduated Vesting for City Contributions**

Roberta Owen has participated actively in MEBT for three years and eight months. She is 100% vested in the employee contributions she made to her account: \$11,000.

The City has contributed an additional \$10,000 to her account. According to the 10-year vesting schedule for City contributions, Roberta is 30% vested in the City's contributions (10% for each full year of participation). Because she has participated an additional eight months, she has earned additional vesting credit of 0.8333% for each of those months. Her total vesting credit in City contributions is calculated as follows:

3 years (10% per year)	30.0000%
plus 8 months x 0.8333%	<u>6.6664%</u>
Total Percentage Vested	36.6664%

City Contributions	\$10,000.00
Vested Percentage	<u>X.366664</u>
Vested Account Balance	\$3,666.64

If Roberta were to terminate employment today, she would have 100% of her own contributions (\$11,000) and \$3,666.64 from the City's contributions. (The unvested difference of \$6,333.36 would be forfeited.)

### **What happens if I leave the City before I am fully vested?**

As in the above example, if you leave City employment before you are 100% vested, the portion of your City contributions that are not vested will be forfeited. Forfeitures are added to the City's contribution to MEBT for allocation to current contributing participants.

If you are rehired at the City of Bellevue, you can receive vesting credit for months of prior service and MEBT participation, but previous MEBT

forfeitures will not be restored. Your new vesting percentage will begin where you left off. If, in the prior illustration, Roberta Owen returned to work after being employed originally for three years and 8 months and she was 36.67% vested when she separated, at rehire her new contributions would start at 36.67% vesting.

### **When can I take my money out of MEBT?**

You (or your beneficiaries) can take your vested contributions and earnings out of MEBT after any of the following events:

1. Retirement
2. Separation from employment with the City of Bellevue for any reason
3. Disability
4. Death

See Distributions and Withdrawals starting on page 14.

### **Can I choose to stop contributing to MEBT?**

You can stop contributing at any time by submitting a completed Enrollment/Change form and a Payroll Change Notice. However, during the time you are not participating, you will not earn additional vesting credit, nor will you receive an allocation of the City's contribution. Your account balance will continue to earn or lose value based on investment performance.

### **What if I choose not to enroll?**

MEBT is voluntary. If you choose not to enroll, you still will have disability and life insurance under MEBT. If you were hired after April 1, 1986, you and the City also will continue to contribute for Medicare coverage. However, while you are employed at the City you will not be earning Social Security, and any Social Security you may have earned with other employers may be affected. See pages 28-29.

If you are not participating, you will miss out on receiving City contributions. These are allocated to you only if you contribute.

Most importantly, you will miss this opportunity to save for retirement and defer taxes.

Note: All MEBT-eligible employees are required to complete and submit election forms indicating their intent to enroll in MEBT. Even if you choose not to enroll, you will be asked to fill out a form so we can be clear about your intent.



# Contributions to Your MEBT Accounts

## *Employee Contributions*

### **What are my options for contributing to MEBT?**

As an eligible employee, you can make contributions to your MEBT account subject to Internal Revenue Code Deferral Limits and Annual Addition Limits, described on pages 9-10.

Within MEBT there are four possible accounts for employee contributions. Contributions may be made pre-tax or after-tax. A brief description of each account follows:

#### **Tax Deferred and After-Tax Basic Accounts**

***If you were hired before April 1, 1986,*** you may choose to participate with combined pre-tax and/or after-tax contributions from a minimum of 0.765% to a maximum of 7.65% of your compensation. To maximize your City matching contribution, you need to contribute 7.65%.

***If you were hired on or after April 1, 1986,*** you may contribute a combination of pre-tax and/or after-tax from a minimum of 0.62% to a maximum of 6.2% of your compensation. To maximize your City matching contribution, you need to contribute 6.2%.

#### **Extra Accounts:**

After you have participated at the 7.65% or 6.2% if hired on or after 4/1/86 level in your Tax-Deferred or After-Tax Basic accounts, you may contribute to the MEBT Extra Account. You may elect pre-tax or after-tax contributions. All pre-tax contributions will go to your Tax-Deferred Account.

For any calendar year, you may contribute up to the Salary Deferral Limits and the Annual Additions Limit set by the Internal Revenue Code.

#### **Rollover Account:**

Under certain restrictions, you may roll over distributions from a former employer's eligible retirement plan. (See page 10 for more detail.)

### **What are the benefits of making pre-tax contributions?**

When you make pre-tax contributions, you pay taxes on a smaller portion of your current income because your retirement contributions are made before your federal income taxes are calculated. As long as your pre-tax contributions remain in MEBT, your contributions and any investment earnings will be tax-deferred.

#### **Illustration: Current Income Tax Advantages with Pre-Tax Contributions**

Zoë Schmidt is a new City of Bellevue employee making \$40,000 per year. This chart shows how Zoë's contribution will reduce her current income taxes if she makes a contribution of 6.2% to MEBT.

	<i>Without MEBT contribution</i>	<i>With MEBT 6.2% pre-tax contribution</i>
Zoë's Pay	\$40,000	\$40,000
Pre-tax Contribution	- \$0	- \$2,480
Taxable Pay	\$40,000	\$37,520
Federal Tax Owed (estimated rate:15%)	\$6,000	\$5,628

**Result:** By making pre-tax contributions of \$2,480, Zoë reduces her current taxes by \$372 (\$6,000-\$5,628). Zoë's contribution also triggers an allocation by the City to her employer account.



## How much can I contribute pre-tax?

The Internal Revenue Code limits the amount you can contribute, pre-tax, each year into any 401(k) plan.

Employees 50 years and older within a Plan year have a higher limit for tax-deferred contributions. This additional amount is called a “catch-up contribution,” and is not subject to the Annual Additions Limit. See chart below.

### Limits to Tax-Deferred Salary Contributions<sup>1</sup>

Age of Participant	Plan Year				
	2002	2003	2004	2005	2006
Under 50	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000
50 and older	\$12,000	\$14,000	\$16,000	\$18,000	\$20,000

<sup>1</sup>Based on employee's age at end of Plan year, December 31.

NOTE: If you contribute on a pre-tax basis to MEBT and to a tax-deferred plan with another employer, your contributions are combined for purposes of the deferral limit. Since it is your responsibility to ensure that your contributions do not exceed the deferral limit, consult with your tax advisor to make certain you are complying with federal requirements. The Form W-2 from each employer will report the amount of your elective deferrals for the calendar year under that employer's plan. If your total exceeds the dollar limitation in effect for that calendar year, you should decide which plan you wish to designate as the plan with the excess amount. If you designate MEBT as holding the excess amount for any calendar year, you must notify the Plan Committee of your designation by March 1 of the following calendar year. The Trustee will then distribute the excess amount to you, plus earnings (or losses) allocated to the excess amount.

### Illustration – Limits on Tax-Deferred Contributions, Investing Options

Alex Parsons is 45 years old and wants to maximize his contributions to retirement savings.

For 2002, the annual maximum for tax-deferred contributions to his MEBT account is \$11,000 for participants under age 50. In this case, Alex can make pre-tax contributions of \$11,000 to MEBT. (If Alex were 52 in 2002, he could make a catch-up contribution of an additional \$1,000, for a total of \$12,000.)

He may also choose to make additional pre-tax contributions of up to \$11,000 to the City's Section 457 Plans. In addition, Alex may make additional after-tax MEBT contributions, as long as his total MEBT contributions do not exceed the Internal Revenue Code Section 415 Annual Additions Limit, described below.

Alex should consult his tax advisor or financial planner to determine which choices are best for him.

### IRS Annual Additions Limit

The Annual Additions Limit, applied to MEBT, means that the total annual contributions to your MEBT accounts (employer and employee, pre-tax and after-tax) cannot be greater than the lesser of \$40,000 or your annual compensation minus your employee contributions to PERS or LEOFF. It is your responsibility to monitor that you are within Internal Revenue Code limits.

### Illustrations: IRS Annual Additions Limit, Applied to MEBT

Joan Whitley is 25 years old. Her annual compensation is \$20,000.

This year she contributed \$400 to PERS.

Total Pay	\$20,000
PERS Contribution	-400
Net Compensation	\$19,600

The 415 limit is the lesser of \$40,000 or net compensation, so Joan's limit is \$19,600.

In this example, Joan can have total employee and employer contributions up to \$19,600 to MEBT (the lesser amount of the Annual Additions Limit).

Juan Garcia is 49 years old and wants to put as much money into his retirement as possible. His annual compensation is \$80,000. This year he contributed \$3,200 to LEOFF II.

Compensation	\$80,000
LEOFF II Contribution	-3,200
Net Compensation	\$76,800

The 415 limit is the lesser of \$40,000 or net compensation, so Juan's limit is \$40,000.

In this example, Juan can have total employee and employer contributions up to \$40,000 to MEBT (the lesser amount of the Annual Additions Limit).

## What are the benefits of making after-tax contributions?

Internal Revenue Code Section 402(g) limits the amount of pre-tax contributions a person can defer each tax year. Once the limit has been met, you may defer contributions in the City's 457 Plans, and/or you may contribute to MEBT on an after-tax basis. Any investment earnings on your after-tax contributions will accumulate tax-deferred until you take your money out of MEBT.

For a \$100 fee, you may make withdrawals *for any reason* (limited to once every 12 months) from your after-tax contributions and earnings while you are employed. In-service withdrawals of your pre-tax contributions to MEBT are allowed only in specific hardship situations. No earnings on pre-tax contributions may be withdrawn unless they were earned before 1988. (See also page 20.)

## Can I roll over distributions from a former employers' retirement plan into MEBT?

Usually. You may roll over distributions from a former employer's eligible retirement plan into your MEBT Retirement Benefits Plan account, and your savings remain tax-deferred, if they meet the following criteria:

- The amount must be an "eligible rollover distribution." An eligible rollover distribution comes from another qualified, employer-sponsored retirement plan or certain individual retirement accounts (IRAs). IRAs must be "conduit IRAs," funded as a result of a prior rollover from an employer. Qualified plans must meet certain federal requirements under section 401(a) of the Internal Revenue Code. These plans include profit sharing, 401(k) plans and pension plans, among other plans. *Currently MEBT does not accept rollovers from 403(b) and 457 plans or after-tax dollars from any non-MEBT plan.*
- You must deposit the rollover into MEBT within 60 days of receipt or via a direct rollover from your account with your former employer.

These savings remain tax deferred and become eligible for withdrawals according to the MEBT rules for Rollover Accounts. Rollover contributions are not eligible for City contributions.



If you were employed previously by another city that participates in MEBT, you may make a direct transfer to your new Bellevue MEBT account. This may be done via direct rollover, or trustee-to-trustee transfer.

Consult your own tax advisor to determine whether a rollover or transfer into the City's MEBT is best for you.

## *City of Bellevue*

### *Contributions*

#### **How is the City's contribution calculated?**

The City's contribution to MEBT for all employees equals the sum of what it would have paid for each employee under Social Security.

The City contribution is reduced by insurance premiums to pay for the Survivor & Disability Benefits Plan and Medicare contributions. The remaining amount is deposited to an employer contribution account in the trust, from which the following is deducted:

- Administrative expenses of the Plan and Trust
- Allocations of mandatory employer contributions to MEBT II participants
- Pension Continuation Benefits for disabled participants

To this result, add back into the City's Contribution Account:

- Forfeitures of non-vested employer accounts from separating employees

This becomes the City contribution that is allocated monthly to contributing participants. It is allocated pro-rata, based on individual employee contributions that are eligible for City matching contributions. Historically, that match has been about \$.90 per dollar contributed by each participant, and will vary in the future, depending on the deductions and additions described earlier.

#### **Which employee contributions are eligible for City contributions?**

Depending on your hire date at the City of Bellevue, your allocation of City contributions may be different.

**If you were hired before April 1, 1986**, your contributions up to 7.65% of compensation are eligible for City contributions until your compensation equals the Social Security Wage Base (\$84,900 in 2002). If your compensation exceeds the wage base, your contributions up to 1.45% of compensation above the Social Security Wage Base also are eligible for City contributions. You are not eligible for Medicare through the City of Bellevue. (Medicare eligibility may have been earned through another employer or through a spouse or former spouse's participation in Medicare.)

**If you were hired on or after April 1, 1986**, your contributions up to 6.2% of compensation are eligible for City contributions until your compensation equals the Social Security Wage Base (\$84,900 in 2002). You are earning credits for Medicare through the City of Bellevue. Both you and the City each contribute 1.45% for Medicare coverage, whether or not you enroll in the MEBT Retirement Plan.

**City of Bellevue  
MEBT Contribution Matrix<sup>1</sup>**

	Maximum Percentage of Employee Basic Contributions (Tax-Deferred & After-Tax)	Maximum Percentage Eligible for City Contribution	Medicare Percentage (Paid by both City and Employee)
<b>Pre 4/1/86 Hire</b>			
Compensation Under Social Security Wage Base (\$84,900 during 2002)	7.65%	7.65%	0%
Compensation Over Social Security Wage Base (\$84,900 during 2002)	1.45%	1.45%	0%
<b>Post 4/1/86 Hire</b>			
Compensation Under Social Security Wage Base (\$84,900 during 2002)	6.20%	6.20%	1.45%
Compensation Over Social Security Wage Base (\$84,900 during 2002)	0%	0%	1.45%

<sup>1</sup> City contributions are allocated pro-rata based on employee contributions up to these participant contribution rates.



### Illustration – City Contributions Allocated According to Employee Contributions

Sally Olson was hired in 1985. One year she earned \$30,000 per year and contributed 7.65% of her pay to MEBT. Suppose the City contribution match was 90% of the employee's eligible contribution. This example shows how the City's contribution added to Sally's MEBT account in one year:

Sally's Contribution:	\$30,000.00		
	<u>    x 7.65%</u>		
	\$2,295.00		
City's Contribution:	\$2,295.00		
	<u>    X 90%</u>		
	\$ 2,065.50		
Total Contributions to Sally's Account:	\$2,295.00	(Sally)	
	<u>+ \$2,065.50</u>	(City)	
	\$4,360.50		retirement savings before earnings/losses

Result: With the City of Bellevue's allocation, Sally's contribution of \$2,295.00 grew to \$4,360.50 in one year. If she did not participate, Sally would give up \$2,065.50 in additional contributions from the City, as well as future tax-deferred earnings on her account. **Note: City contributions are subject to a 10-year vesting schedule.** (See Vesting, on pages 5-6).



# Distributions and Withdrawals

You (or your beneficiaries) can take distributions from your vested contributions and earnings after any of the following events:

1. Retirement
2. Separation from employment with the City of Bellevue for any reason
3. Disability
4. Death

While still in service, you also may take a hardship withdrawal (restrictions discussed on pages 22-24) or a non-hardship withdrawal for any reason from your after-tax accounts.

## What options do I have for taking a distribution?

MEBT has several different distribution options. Those that will be available to you depend on your

circumstance and the amount of money in your vested account balance. At the time you or your beneficiaries become eligible to take a distribution from MEBT, you may choose from the payment options available to you. If you leave the City with less than \$5,000 in your vested retirement account, you are limited to a lump-sum payment or rollover, or combination thereof.

To request or make changes in how you want to receive your distributions, complete and submit the Participant Distribution Election Form, available from Retirement Services – Human Resources. Consult with your tax advisor before selecting or making changes to a distribution option.

See chart summary and the expanded explanation of each option.

**Benefit Payment Options, by Circumstance<sup>1</sup>**

	Retire or Leave City with >\$5,000 vested balance	Leave City with <\$5,000 vested balance	Disability	Death (Payment to Beneficiary) <sup>2</sup>
Single Lump-Sum Payment	X	X	X	X
Direct Rollover (at least \$200)	X	X	X	X (spouse only)
Partial Distribution	X	n/a	X	X
Installment Payments	X	n/a	X	X
Annuity Contract	X	n/a	X	X
Defer Payment	X	n/a	X	X (spouse only)

<sup>1</sup> Combinations of these benefit-payment options are possible.

<sup>2</sup> The rules for beneficiaries are highly complex, and there are certain dates by which decisions must be made to assure appropriate benefits are received.

Note: It is recommended that you read the IRS Special Tax Notice Regarding Plan Payments and consult your tax advisor prior to taking a distribution. This Notice is available in Human Resources.

## MEBT Benefit-Payment Options, Defined

- **Lump-Sum Payment** – You receive a single payment of the entire distribution amount.
- **Direct Rollover** – MEBT will pay the distribution amount directly to another eligible plan or individual retirement account (IRA) that will accept the rollover. The distribution amount must be at least \$200. If you die, a rollover is available for a spouse only.
- **Partial Distribution** – You receive a single payment of the amount you choose to have distributed. The rest remains in MEBT until you choose another distribution option.
- **Installment Payments** – MEBT will make periodic payments (monthly, quarterly or annually) from your account balance over a specified period of time. You may choose to take your installments either:
  - Over a fixed number of years
  - For a specific dollar amount per payment
  - Over your life expectancy
  - As a joint and survivor option (over your life and your beneficiary's life expectancy)

You may reduce, accelerate or defer installments on all or a portion of your remaining account balances.

- **Annuity Contract** – You may elect to have MEBT use your account balance to purchase a non-transferable annuity contract from an insurance company. The insurance company takes on the contractual obligation to provide you income in installment distributions, for life or for a fixed period.

- **Payment Deferral** – You may elect to defer payment of all or a part of your account balance until a later date. If you wish to defer payment, you must complete the Participant Distribution Election Form, choose the deferral election, and file it with the Plan Committee by submitting it to the Retirement Services staff. When you decide to receive your benefits later, simply complete a new form.

The Internal Revenue Code requires that you take your money from MEBT or start receiving the minimum benefit payment by the earliest of the following dates:

- April 1, immediately following the calendar year after you reach age 70½
- If still employed at age 70½, the April 1 immediately following the calendar year in which your employment with the City of Bellevue ends

If you still have an account balance when you die, additional complex restrictions and deadlines apply. Beneficiaries or their representatives should contact Human Resources for election forms. For more detail, see also, "What happens to my account if I die?" page 19.

For all benefit-payment options, your account balance will be subject to the gains and losses in the Trust unless you elect and are eligible to segregate your account balance in a money-market type account. See page 17. Effective July 1, 2003, there will be an administrative fee assessed quarterly to help pay for the administrative costs of maintaining the account. The amount is based on a rolling average calculation of annual plan administrative expenses and amounts to approximately \$120 per year for 2003. Accounts will be charged \$30 per quarter for the 3rd and 4th quarters of 2003. As a result, the total amount paid to you could be more or less than the value of your account balance when you are first eligible to take a distribution.

## **What deadlines apply for deciding on payment options?**

### **If your vested account balance is less than \$5,000:**

When you leave employment with the City, you will receive distribution forms to indicate your distribution decision. You have 30 days to decide whether to elect a direct rollover of your distribution. You may waive this right if you desire to expedite a payment. The non-vested portion of your employer account will be forfeited. If you do not complete the forms within 30 days of receiving them, your vested account balance will automatically be paid directly to you, less the 20% mandatory withholding on all taxable amounts, such as tax-deferred contributions, rollovers and investment earnings.

If you are under age 59½ and you take a distribution, you may owe the IRS a 10% tax penalty, in addition to ordinary federal income taxes (see page 23).

### **If your vested account balance is \$5,000 or more:**

When you leave employment with the City, you will receive distribution forms to indicate your distribution decision. You have 30 days to decide whether to elect a direct rollover of your distribution, take a distribution, or keep your money in MEBT. Whatever option you select, complete the distribution-election forms and submit them to Human Resources within 30 days. You may waive the right to 30 days if you desire to expedite a payment. Regardless of the option you select, the non-vested portion of your employer account will be forfeited.

If you are under age 59½ and you take a distribution, you may owe the IRS a 10% penalty, in addition to ordinary income taxes (see page 23).

### **If you are a beneficiary:**

Deadlines for beneficiaries are very complex, vary by circumstance, and critical to meet. See “What happens to my account if I die?” page 19.



## *Distributions at Retirement or Separation from Service*

### **When can I take MEBT payments?**

You can begin taking payments as soon as you separate from service from the City of Bellevue.

**If you have less than \$5,000 vested in your MEBT account balance when you separate,** you will be paid out your full vested account balance as soon as practicable unless you elect to roll over the distribution into another eligible retirement plan or IRA.

**If you have more than \$5,000 in your MEBT account balance when you separate,** you may leave your money in MEBT until age 70½, at which time the Internal Revenue Code requires that you begin taking at least a minimum benefit payment. If you continue working for the City of Bellevue past age 70½, you can leave your money in MEBT until the April 1st following the year of your retirement. At that time you must begin receiving at least a minimum benefit payment from MEBT.

Make sure you know the tax consequences of any distributions and consult a tax advisor. (See Tax Consequences of Distributions and Withdrawals, starting on page 22.)

### **May I change my MEBT investment options as I approach retirement?**

Yes. If you are within three years of your Normal Retirement Date or after retirement but before distribution, you may wish to reduce the level of investment risk of your MEBT investment by transferring your money into MEBT's Money Market Fund. You may make up to three transfer elections to the Money Market Fund prior to payment of your entire account.

Once you have transferred funds to the Money Market Fund, you may not transfer them back to the main Trust account. The rate of return in the Money Market Fund may be less volatile. Over a longer term, its rate of return also may be lower than the rate of return in the main Trust account. However, there is no guarantee that the main Trust account will have positive returns.

### **Is my account balance "fixed" at the time I separate, or will it continue to gain or lose value?**

That depends on choices you make with your accounts. If you choose to transfer all of your account balances into MEBT's Money Market Fund, you will draw from the exact value of your account on the date you transferred it, plus variable money-market interest less any periodic account administrative fees. If instead you leave all or part of your account balance in the main Trust account, your balance may increase or decrease over time, depending on investment results. Effective July 1, 2003, there will be an administrative fee assessed quarterly to help pay for the administrative costs of maintaining the account. The amount is based on a rolling average calculation of annual plan administrative expenses and amounts to approximately \$120 per year for 2003. Accounts will be charged \$30 per quarter for the 3rd and 4th quarters of 2003.

### **Can I change my payment options during retirement?**

Yes, provided that you have not already received a full distribution from your accounts. Changes in your distribution methods may have tax consequences, so consult a tax advisor before doing so. To change your payment plan, complete and file a new Participant Distribution Election form and return it to Human Resources.



## *For Disability*

### **What is the definition of disability under the MEBT Retirement Plan?**

You must not be able to engage in any substantial gainful activity as a result of a medically determinable physical or mental impairment that has lasted—or can be expected to last—for a continuous period of 12 months or longer, or can be expected to result in death.

### **What happens if I become disabled?**

If you become disabled according to the definition above, your account will become 100% vested. If you become disabled while you are working for the City, you may elect to have your account paid out. Another option you have is to keep your money in the MEBT Retirement Benefit Plan and receive a Pension Continuation Benefit, if you qualify.

#### **Pension Continuation Benefit**

In addition to being eligible for benefits from the Survivor & Disability Plan, you may be eligible to receive monthly Pension Continuation Benefits.

The purpose of the Pension Continuation Benefit is to allow you to continue to accumulate retirement savings in the MEBT Retirement Benefit Plan while you are not working because of your disability. Under this option, you keep your money in MEBT. Each month you will receive an allocation to your account equal to 180% of your contribution level immediately prior to your disability. These contributions are vested 100% automatically.

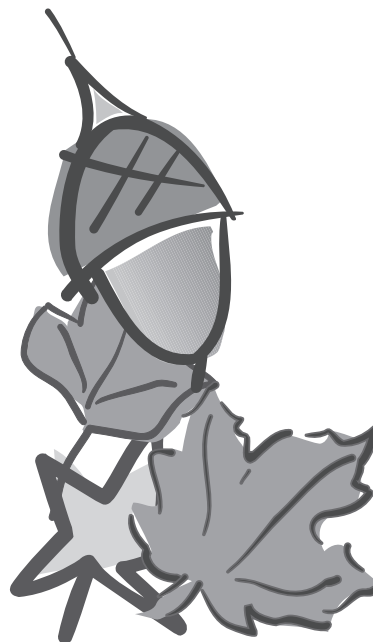
To qualify for this benefit, you must:

- Have been actively making contributions to MEBT immediately before your disability, and
- Keep your money in MEBT until you are eligible to retire, and
- Meet the definition of disability, as defined earlier.

If you take a distribution before you are eligible to retire, Pension Continuation Benefits cease. You may take in-service withdrawals without jeopardizing your Pension Continuation Benefit. (In-service withdrawals include non-hardship from your After-Tax Basic, After-Tax Extra, and Rollover accounts and hardship withdrawals from your Tax-Deferred and After-Tax Basic accounts.)

The Pension Continuation Benefit contribution to your account will continue until the *earlier of*:

- Your 65th birthday
- Your earliest service retirement date under any other retirement-benefit program (for example, PERS or LEOFF) where you are entitled to receive full benefits (i.e., not actuarially reduced)
- The date you receive a retirement distribution
- The date you are no longer disabled, as previously defined





## *For Death*

### **What happens to my account if I die?**

If you die while employed by the City of Bellevue, your City contributions will become 100% vested. All of your accounts will become payable to the beneficiary(ies) named on your current Beneficiary Designation form.

#### **Decision Deadlines for Beneficiaries**

Your spouse or other beneficiary(ies) must make decisions by key dates to be sure to receive the benefits to which they are entitled. Failure to meet these dates and required distribution amounts may result in an excise tax of 50% of the amount that should have been distributed. The rules are complex and described in a separate memorandum, included in the MEBT Distribution Options for Beneficiaries of Deceased Participants, found in the survivors information packet.

Beneficiaries (or their representatives) should request an information packet from Human Resources as soon as possible to make sure their benefits are paid appropriately.

### **What payment options does my surviving spouse have?**

A primary beneficiary who is your spouse has the following payment options:

- Rollover the entire rollover-eligible balance
- Rollover a portion and receive the balance in a lump sum
- Lump-sum distribution (any time before you would have reached age 70½)
- Installment payments
- Partial distribution
- Defer receipt of payment. Payments must begin by the later of either:
  - The end of the year following the year of your death, or

- By the time you would have reached age 70½.

Any rollover-eligible amount is subject to a mandatory 20% withholding unless it is rolled over.

### **What payment options do other beneficiaries have?**

Non-spouse beneficiaries have the following payment options:

- Lump-sum distribution
- Installment payments
- A combination of lump sum with the remainder in installments

Beneficiaries or their representatives should consult tax advisors to be fully aware of the tax consequences of any payment option selected and when elections must be made. Beneficiaries are responsible for requesting payment within the proper time frame.

### **Who can help my family members apply for benefits if I die?**

Since every situation is unique, your beneficiaries should contact Human Resources as soon as possible after your death to apply for benefits. Beneficiaries will receive a packet of information. The MEBT Plan Committee recommends that beneficiaries or their estate representatives share this information with their financial or tax advisors before making benefit-payment decisions.

## *For Early Withdrawals*

### *During Employment:*

#### *Hardship and Non-hardship*

Within certain restrictions, you may withdraw money from your Employee Contribution Accounts while you still are employed. You may not repay any money withdrawn, however, and you are limited in the number of withdrawals permitted. During employment, you cannot make a withdrawal from your City Contributions account or related earnings.

MEBT has two types of withdrawals during your employment: non-hardship and hardship. Each type of withdrawal has different rules.

### **Under what conditions may I take a non-hardship withdrawal?**

You may take a non-hardship withdrawal from your after-tax employee contribution accounts (contributions plus earnings) or from your rollover account (contributions plus earnings) for any reason once every 12 months. You will be charged a fee (currently \$100) for each withdrawal you request.

### **Under what conditions may I take a hardship withdrawal?**

Under certain conditions you may take a hardship withdrawal from your Tax-Deferred Account (pre-tax contributions plus any earnings as of December 31, 1988) or from your After-Tax Basic Account (after-tax contributions plus earnings).

#### **Limitations:**

Hardship withdrawals are for situations that constitute an immediate and heavy financial need

that you are unable to satisfy from other sources, for the following reasons:

- Uninsured medical expenses for yourself, your spouse or dependent children
- Purchase of your principal residence
- Payment of educational expenses for yourself, spouse or dependent children
- Need to prevent eviction from your principal residence or to prevent foreclosure on the mortgage on your principal residence
- Substantial improvement, alteration or reconstruction of your principal residence or the need to repay a loan for the foregoing (available only from your After-Tax Basic Account)

To apply for a hardship withdrawal, you also must submit an affidavit, in writing, that the financial need *cannot be met by any other means*, including any of the following:

- Reimbursement or compensation by insurance
- Reasonable liquidation of your assets (to the extent such liquidation would not itself cause an immediate financial hardship)
- Suspension of your contributions to MEBT or to the City's deferred compensation program (ICMA or Nationwide)
- Receipt of other distributions or non-taxable loans (at the time of the loan) from plans maintained by the City of Bellevue or any other employer
- Acquisition of a loan with a reasonable interest rate from commercial financial institutions

Note: If you could relieve your need by one of the above means, but the effect would be to increase the amount of your need, you still may make the assertion that your financial need cannot be met by any other means.

If you request a hardship withdrawal, you will be asked to provide documentation supporting the amount and type of hardship that you are experiencing. The Plan Committee will review your request to determine whether it will approve your hardship withdrawal. Applying for a hardship withdrawal can be complicated. There are complex tax consequences and there may be penalties. See page 22. You may want to seek help from an HR Retirement Analyst prior to submitting your request.

### **Can I take a loan from the Plan?**

No, the Plan does not allow for loans.



# Tax Consequences of Distributions and Withdrawals

## What are the tax consequences of taking money from MEBT?

Whenever you take withdrawals or distributions from your MEBT accounts, there are likely to be tax consequences. You are responsible for reporting any withdrawal to the Internal Revenue Service (IRS) as income on your federal income-tax filing. MEBT will provide you and the IRS with a Form 1099-R to report any distributions.

If you are under age 59½ when you take the withdrawal, you may owe both ordinary income taxes and an additional 10% tax penalty to the IRS. Under limited circumstances you may qualify for an exemption from the tax penalty, described on page 23.

Consult with a qualified tax advisor to determine the proper method of reporting any distributions or withdrawals you receive from MEBT. Internal Revenue Code rules are complex, change periodically, and vary according to individual circumstances.

Here is a brief summary of the taxes you may incur when taking money from MEBT.

- **Non-hardship Withdrawals** – Non-hardship withdrawals can be taken only from your After-Tax Basic and After-Tax Extra accounts and rollovers. Since you already have paid federal income tax on after-tax contributions, you pay taxes only on the associated investment earnings, which were tax-deferred. If the withdrawal is not being rolled over into an IRA, you will incur a mandatory 20% federal income tax withholding on the earnings. This withholding is a pre-payment of potential taxes. Your actual tax liability may be more or less than this amount. The 10% tax penalty for early withdrawal also may apply if you are younger than 59½ years old.
- **Hardship Withdrawals** – Hardship withdrawals can be taken only from your Tax-Deferred Account (pre-tax contributions, plus any earnings at December 31, 1988) or from your After-tax Basic Account (after-tax contributions, plus earnings). You will owe federal income taxes on the pre-tax contributions and on any investment earnings. Withholding is optional. You may elect to have a portion of your withdrawal withheld for income taxes that you will owe and for the 10% tax penalty for early withdrawal you may owe if you are younger than 59½. These withdrawals are not eligible for rollover.
- **Distributions when Leaving Employment with the City for any Reason, including Retirement**
  - You will owe federal income taxes on distributions from your Tax-Deferred, City Contribution and Rollover accounts, and investment earnings on all your accounts. There is a 20% mandatory withholding of your tax-deferred money for federal income tax. This withholding is a pre-payment of potential taxes. Your actual tax liability for the year could result in a tax rate that is higher or lower than 20%. Withholding does not apply to amounts directly rolled over to an IRA or an eligible plan.
  - In addition to owing federal income taxes, when you receive tax-deferred money from the Plan before age 59½, you may be required to pay the IRS a 10% tax penalty on the untaxed money. There are some special circumstances when the tax penalty will not apply that are explained below.

## How may I avoid the 10% penalty?

If you take a distribution or withdrawal prior to age 59½, the Internal Revenue Code generally applies a 10% penalty. However, you may qualify for an exception if the withdrawal meets at least one of the following conditions. The distribution or withdrawal was:

- Paid after you separate from service (retirement or termination) after you reach age 55<sup>1</sup>
- Paid because you retire due to disability as defined by the Code
- Paid as equal (or almost equal) payments over your life expectancy (or you and your beneficiary's life expectancy)
- Rolled over in a timely manner to either a qualified individual retirement account (IRA) or another employer's eligible retirement plan that accepts rollover contributions
- Used to pay deductible medical expenses
- Paid to an alternate payee, such as a former spouse, under a Qualified Domestic Relations Order (QDRO)

Consult your tax advisor for relevant tax strategies and proper reporting of any distribution you receive from MEBT.

<sup>1</sup>The IRS Model Tax Notice, IRS Publication 575 and IRS Notice 87-13 indicate that the tax does not apply to payments to you "that are paid after you separate from service with your employer during or after the year you reach age 55."

### Illustration: Early Retirement with Installments over Life Expectancy

If you retire or terminate before the calendar year in which you reach age 55, you can avoid the 10% tax penalty by electing to take installments over your life expectancy. Once you have reached age 59½ and have received such installments for at least five years, you can change your payment option (for example, from installment to a lump sum) and continue to avoid the tax penalty.

Be aware, if you change your payment option before reaching age 59½, you will owe the 10% penalty (plus interest) on any amounts received before age 59½. Similarly, if you change your payment option before receiving proper installments for at least five years, you will owe the 10% penalty (plus interest) on any amounts received before age 59½.

If you retire or terminate between ages of 55 and 59½, you may take a distribution at any time and avoid the 10% penalty.<sup>1</sup>

Human Resources can provide tables that calculate your life expectancy for federal income tax purposes, or the life expectancy of you and your beneficiary.



## Summary of Tax Consequences of Withdrawals and Distributions

	<b>Non-Hardship In-Service</b>	<b>Hardship In-Service</b>	<b>Distributions Following Separation</b>
<b>Accounts Available</b>	After-Tax Basic or After-Tax Extra contributions plus earnings, and Rollover Accounts.	Pre-tax contributions (Tax-Deferred plus pre-1989 earnings) and After-Tax Basic contributions plus earnings.	All vested account balances plus earnings.
<b>Taxable?</b>	<b>Yes</b> The after-tax contributions have already been taxed, but the earnings are taxable.	<b>Yes</b> Pre-tax contributions and earnings are taxable. The after-tax contributions have already been taxed, but the earnings are taxable.	<b>Yes</b> Pre-tax contributions and earnings are taxable. The after-tax contributions have already been taxed, but the earnings are taxable.
<b>Subject to Mandatory 20% Federal Tax Withholding?</b>	<b>Yes</b> On taxable amounts (rollover contributions and all tax-deferred earnings).	<b>No</b> May elect <b>optional</b> withholding on pre-tax contributions and on tax-deferred earnings.	<b>Yes</b> On taxable amounts if paid in a lump sum or over a period less than 10 years.
<b>Subject to 10% Penalty Tax Before Age 59½?</b>	<b>Yes</b> On rollover contributions and earnings unless you qualify for an exception.	<b>Yes</b> On pre-tax contributions and all tax-deferred earnings unless you qualify for an exception.	<b>Yes</b> If paid directly to you in a lump sum or in installments over a period less than life expectancy, unless you qualify for an exception.





# Special Circumstances

## What happens if I am on military leave?

The Uniformed Services Employment and Reemployment Rights Act (USERRA) permits contributing participants called up for military leave to make contributions to MEBT upon their return to work and to receive City contributions. A number of specific timelines must be met for USERRA benefits to apply. Contact Human Resources for an information packet.

## Is vesting portable between MEBT cities?

To answer this question, it is helpful to review three situations that may apply:

1. Leaving the City of Bellevue and immediately going to work for another MEBT city
2. Begin working for Bellevue immediately following employment at another MEBT city
3. Rehired by the City of Bellevue

### Leaving the City of Bellevue for employment at another MEBT city

If you leave the City of Bellevue and immediately go to work for another MEBT city, your months of participation in Bellevue's MEBT may be counted toward your vesting at your new MEBT city. The non-vested portion of your Bellevue MEBT Employer Account (City contributions) will be forfeited, but you will be 100% vested in the remaining portion.

Depending on the rules of the other MEBT city's Plan to which you are transferring, you may be given credit for your months of MEBT participation with the City of Bellevue. If you do receive credit, you begin vesting in the Employer Contributions at the new MEBT city based on the months of service for participation in Bellevue's MEBT. *Check with your new MEBT employer's Human Resources Department for requirements.*

### Illustration – Transferring to another MEBT City with a 5-year Vesting Schedule

Matt Erikson worked and participated in MEBT for two years at the City of Bellevue before accepting a position at a different MEBT city. During that time, he contributed \$2,200 from his own salary into his MEBT Employee Account. The City allocated another \$2,000 in City Contributions.

The City of Bellevue has a 10-year MEBT vesting schedule, so Matt was 20% vested in his City Contributions Account of \$2,000, for \$400 (20% of \$2,000).

When he went to work for a different MEBT City, Matt was eligible to transfer 100% of his employee contributions (\$2,200) and 20% (\$400) of his City Contributions.<sup>1</sup> Matt forfeited \$1,600 of his City Contributions, the remaining unvested portion (80% of \$2,000).

Matt immediately transferred his MEBT accounts (100% of his employee contributions and the vested portion of his City Contributions) to his new MEBT city employer.

Because his new city has a 5-year vesting schedule, Matt's two years at the City of Bellevue translated to 40% vesting credit in their plan. (Two years equals 40% of five years.) Contributions Matt received from his new MEBT city were bumped up to a higher vesting schedule. Future City Contributions Matt will receive from the new city will begin at 40% vesting.

Most MEBT plans credit participation with other MEBT cities, but some may not. Contact the applicable Human Resources Department if you have questions.

<sup>1</sup> The \$400 vested City Contributions that Matt transferred to his new MEBT city remained 100% vested in his new City Contributions account.

### **Begin working for Bellevue immediately following employment at another MEBT city**

If you begin employment at Bellevue immediately following employment at another MEBT city, you receive vesting credit for your months of participation in the MEBT Plan of the other city, if you:

- Enroll in the MEBT Retirement Benefit Plan as soon as you are eligible by completing the enrollment forms available from Human Resources
- Make at least the minimum contribution
- Were participating in the other MEBT city's Plan immediately prior to coming to Bellevue
- Roll over or directly transfer your current MEBT account to the City of Bellevue Plan.

#### **Illustration – Transferring to Bellevue from another MEBT City**

Ashley Carter worked and participated for one year at the City of Redmond before accepting a position at the City of Bellevue. She had contributed \$2,200 to her MEBT Employee Account. The City of Redmond allocated another \$2,000 in City Contributions.

The City of Redmond has a 5-year vesting schedule in its MEBT plan, so Ashley was 20% vested in Redmond's City Contributions Account at the time she left. Ashley forfeited \$1,600, or 80% of her City Contributions Account, but was fully vested in the remaining 20%, or \$400.

Ashley immediately transferred her MEBT accounts (100% of her employee contributions and the vested portion of her City Contributions<sup>1</sup>) to the City of Bellevue MEBT Plan.

Because the City of Bellevue has a 10-year vesting schedule, Ashley's one year at the City of Redmond translated to 10% vesting credit at the City of Bellevue. Future City Contributions Ashley will receive from the City of Bellevue will begin at 10% vesting.

<sup>1</sup> The \$400 vested City Contributions that Ashley transferred from the City of Redmond MEBT to the City of Bellevue MEBT remained 100% vested in her new City Contributions account.

### **Rehired by the City of Bellevue**

As of January 1, 2000, if you are rehired by the City of Bellevue, the vesting schedule for new allocations from City contributions credit your months of prior participation in Bellevue's MEBT. However, any previously forfeited amounts are not returned to you.

#### **Illustration – Rehired by the City of Bellevue**

Larry Smith worked and participated for one year at the City of Bellevue. During that time he contributed \$2,200 to his Employee Account. The City allocated another \$2,000 in City Contributions.

Larry was 100% vested in all MEBT contributions he made into his Employee Accounts.

Because Bellevue's MEBT Plan has a 10-year vesting schedule, he was 10% vested in his City Contributions Account of \$2,000 at the time he separated. At separation, he forfeited \$1,800, or 90% of his City Contributions. He was vested in the remaining amount of \$200.

Later, Larry Smith was rehired by the City of Bellevue. Because he received credit for one year of prior participation, Larry restarted his MEBT participation at 10% vesting for all new City Contributions. The \$1,800 previously forfeited is not reinstated into Larry's account.

Contact Retirement Services - Human Resources for information and forms.



## **Can my MEBT account be assigned to someone else?**

Retirement benefits provided under MEBT are for you and your beneficiaries alone. You cannot assign your MEBT account to someone else in order to settle a debt, nor can you use your MEBT account as collateral to secure a loan, nor may creditors reach these accounts. The only exception is in the case of a Qualified Domestic Relations Order, described below.

### **Qualified Domestic-Relations Order (QDRO)**

An alternate payee for your MEBT accounts must be a spouse, former spouse, child or other dependent of a participant who is recognized by a Domestic Relations Order as having the right to receive all, or a portion of, your benefits under MEBT. If the order permits, the Plan specifically permits an “alternate payee” to request an immediate distribution of retirement benefits. This request must comply with federal and state domestic-relations laws.

If you are working on a domestic-relations order, contact Human Resources for more information on how to proceed. MEBT legal counsel will work with your legal counsel to pre-approve the order and minimize costs to you.

### **Unclaimed Accounts**

If your Plan benefits become payable after termination of employment and the Plan Committee is unable to locate you at your last address of record, your account may be forfeited. If you later make a claim for this account, it will be restored at the same dollar amount as the amount forfeited, unadjusted for any subsequent income, gains and losses. Therefore, it is very important that you keep the Plan Committee apprised of your mailing address even after you have terminated employment.



## How may MEBT affect my potential Social Security benefits?

If you are eligible to receive Social Security as a result of other employment or based on a spouse's employment, a modified formula may apply. Due to the federal government's Windfall Elimination Provision and Government Pension Offset, your future payments may be reduced depending on how many years of substantial earnings you had outside of Bellevue.

There are two ways your Social Security benefits—or the benefit you could receive as a spouse or widow—may be reduced.

### Windfall Elimination Provision

The Windfall Elimination Provision results in a modified formula for those who already have earned Social Security benefits through other employers. According to the Social Security Administration, the Windfall Elimination Provision primarily affects people who earned a pension from working for a government agency that does not contribute to Social Security and who also worked at other jobs where they paid Social Security taxes long enough to qualify for retirement or disability benefits (at least 40 quarters, or 10 years). Because the City of Bellevue participates in a pension program (PERS or LEOFF) and does not contribute to Social Security, this provision may apply to you, whether or not you participate in MEBT. Based on 2002 calculations, the maximum reduction of Social Security benefits you have or will earn is currently about \$300 per month. Social Security may change that amount in subsequent years.

Social Security is designed to protect those who most need it. Social Security builds into its formula a way to reduce benefits for those who are not participating in Social Security. Your Social Security benefits will be reduced on a sliding scale,

based on the number of years you had substantial earnings with an employer subject to Social Security. If you have contributed to Social Security for 20 years or longer, the Windfall Elimination Provision will have less of an impact on your Social Security benefits.

Suppose at retirement your Social Security credited Average Monthly Earnings are \$6,000. Social Security benefits are calculated based on three factors, adjusted for inflation:<sup>1</sup>

The first \$592 of your Average Monthly Earnings, multiplied by 90%	<b>\$532.80</b>
The next \$2,975, multiplied by 32%	<b>\$952.00</b>
The remainder (\$2,433), multiplied by 15%	<b>+\$364.95</b>
<b>Monthly Social Security Benefit</b>	<b>\$1,849.75</b>

<sup>1</sup>2002 figures

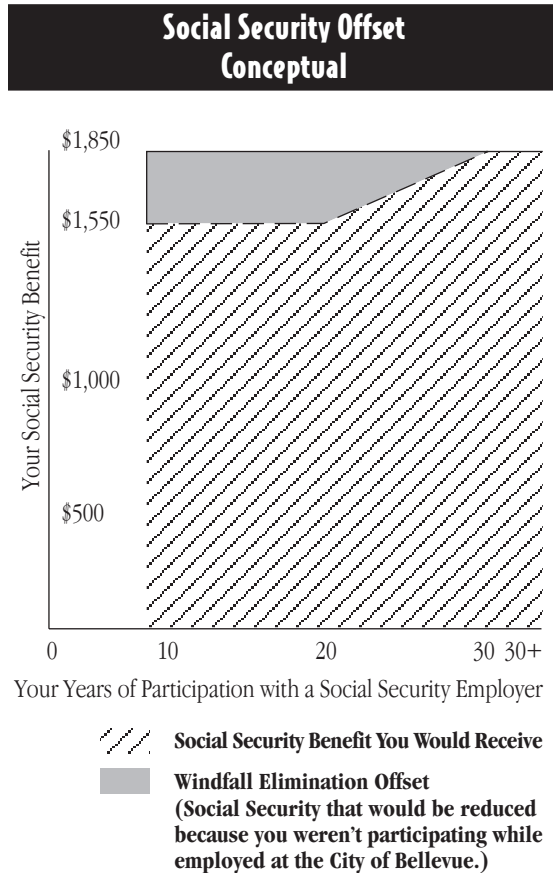
The Windfall Elimination Provision reduces only the 90% factor in the first \$592 of Average Monthly Earnings, using a sliding scale:

- **If you have 30 or more years** of “substantial earnings” in a job where you paid Social Security, the Windfall Elimination Provision has no effect. (*\$0 offset*)
- **If you have 21 to 29 years** of “substantial earnings” into Social Security, the 90% factor is reduced to between 45 to 85%. (*loss as high as \$266.40 for 21 years, to as low as \$29.60 offset, for 29 years*)
- **If you have 20 or fewer years** of “substantial earnings” into Social Security, the 90% factor is reduced to 40%. (*\$296 offset*)
- **If you have paid fewer than 40 quarters (10 years)** into Social Security, you have not yet earned eligibility for Social Security payments. (*\$0 offset*)

Note: These dollar examples are based on 2002 figures and may be changed in subsequent years by Social Security.

For more detail about the Windfall Elimination Provision, read SSA Publication No. 05-10045, available at [www.ssa.gov/pubs](http://www.ssa.gov/pubs).

The following graphic depicts the example described on the previous page.



For more detail about the Government Pension Offset, read SSA Publication No. 05-10045, available at [www.ssa.gov/pubs](http://www.ssa.gov/pubs).

### Government Pension Offset

The Government Pension Offset also may reduce your Social Security benefits. Normally, if your spouse has earned Social Security benefits, you could be entitled to half of his or her benefits if you survive him or her and you have little or no pension income of your own.

This Social Security offset provision makes the benefit for surviving spouses comparable to workers at non-governmental employers. Social Security offsets your Spouse's Social Security benefits that you could be entitled to receive by 2/3 of what you are receiving monthly from your retirement plans (PERS/LEOFF + MEBT). The computation of your monthly income benefit from MEBT is based on annuitizing your MEBT account balance.

This provision is unlikely to affect the majority of City of Bellevue employees. In fact, most employees with a long work history - no matter *who* they worked for - will receive a pension high enough to disqualify them for this Social Security benefit.

For example, Dan Greenwald, a City of Bellevue employee, survives his wife, who was eligible for Social Security. Her monthly Social Security payment was \$800. Without the Government Pension Offset, Dan would be entitled to half of her \$800, or \$400 per month. Dan's monthly retirement (PERS/LEOFF + MEBT) is \$1,000. The Government Pension Offset deducts 2/3 of Dan's monthly retirement benefit ( $\$1,000 \times .6666 = \$666$ ) from the \$400 he otherwise would have been entitled to receive. Consequently, Dan receives no Social Security as a surviving spouse.

In this case, Dan is already receiving a higher retirement benefit than he would have as a survivor. The result would be the same if Dan worked in the private sector. Spouses/widow(er)s can receive only the higher retirement benefit (theirs or theirs as a spouse), but not both.

For more detail about the Government Pension Offset, read SSA Publication No. 05-10007, available at [www.ssa.gov/pubs](http://www.ssa.gov/pubs).

# Claims Procedures

## What if my claim is denied?

The MEBT Committee attempts to make all decisions with respect to the Bellevue Plan in good faith and in a uniform and nondiscriminatory manner. If you disagree with the MEBT Committee's determination of the amount of your benefits under MEBT or with respect to any other decision MEBT Committee may make regarding your interest in MEBT, there is an appeal procedure you may follow. In brief, if the MEBT Committee determines it should deny benefits to you, in whole or in part, you may submit a formal claim in writing to the MEBT Committee. The MEBT Committee will then provide you:

- A specific, written explanation of why your claim was denied and the pertinent provisions of the MEBT Plan supporting the decision
- Details about additional information that may be required in order to receive your payment
- Details about how MEBT's appeal procedures work

## Appeal Procedure

If you want the MEBT Committee to hear your appeal of its decision, you or your authorized representative must make a written request for the denied benefits to the MEBT Committee within 90 days of receiving your denial. Your request must present all of the grounds on which your appeal is based, including all relevant facts. The MEBT Committee will:

- Give you access to review pertinent documents to prepare your request
- Possibly require you to submit additional materials necessary for the MEBT Committee to make its decision about your appeal
- Review your case and give you its decision within 60 days—unless special circumstances require additional time

If your claim is again denied, in whole or in part, you will be told specifically why and the Plan provisions that support the decision.



# Overseeing your MEBT investments

## Who makes MEBT investment decisions and how?

The MEBT Trust Committee makes investment decisions for the Trust. They are guided by recommendations from the Investment Advisory Committee, composed of one representative from each MEBT-member city, and advised by a professional investment manager hired by the MEBT Trust Committee.

## Other Duties of the Plan Committee and Trust Committee

The Plan Committee and Trust Committee, made up of City of Bellevue employees appointed by the City Manager, maintain records and interpret and enforce Plan provisions, including eligibility and claims for benefits.

The Trust Committee also is responsible for arranging the necessary services to operate the Trust, including legal, accounting, record-keeping, consulting and investment advice.

The Plan Committee has discretionary authority to interpret Plan provisions and determine benefit eligibility. It must perform its duties legally and prudently, for the exclusive benefit of participants and their beneficiaries.

## MEBT Statement of Investment Policy

Investments in the fund are made according to the MEBT Statement of Investment Policy (SIP). Assets are diversified based on asset-class targets that are established in the SIP. Investments are periodically “re-balanced” when the value of the investments varies from the established targets.

MEBT is currently invested in domestic equities, foreign equities and fixed-income investments (bonds and stable value funds). Because the Trust is a vehicle for long-term retirement savings, the Trust Committee has established a relatively conservative, balanced investment philosophy with the following asset-class targets:

- Domestic Equities 45%
- Foreign Equities 15%
- Fixed Income 40%

## How is the value of my MEBT account determined?

The value of your MEBT Plan account is based on contributions, any amounts rolled over from prior plans, any distributions or withdrawals and the Trust’s investment results.

Your account will be valued at the end of each month or at any other date as determined by the MEBT Plan Committee. The term “valuation date” means the last day of each month (or other appropriate period) throughout the Plan Year when funds are reported and allocated to accounts by the Plan recordkeeper.

About six weeks after funds are valued at the end of each quarter, you will receive a statement reflecting the total value of your MEBT account as of that date. Generally, the quarterly statement will show you:

- Contributions to your account (yours and the City’s)
- Distributions and withdrawals from your account
- Rollovers to your Plan account (made by you)
- Increases or decreases due to investment returns (interest, dividends, capital appreciation and depreciation, realized and unrealized gains or losses)

Investment returns (gains or losses) are credited to all accounts on a proportional basis. For example, if the value of MEBT increases (or decreases) by 10%, your account would receive its proportional share of that 10%.

The Trust is tracked in unit values, similar but not identical to a mutual fund. Whereas most mutual funds are valued on a daily basis, MEBT is valued periodically. As a result, transactions in MEBT are processed using different unit values, depending on when they were made. Generally, PC-software designed to track mutual funds cannot track MEBT accurately, due to this difference in methodology.

## **Why do the balances in my accounts fluctuate?**

Because you and the City of Bellevue are contributing regularly to your accounts and because MEBT investments gain and lose value, you should expect your account balances to fluctuate.

It's important to remember that severe downturns in market or economic conditions could result in losses to your accounts. As with all investments, past performance is not indicative of future results.

## **Where can I go for more information about MEBT?**

Read this Summary Plan Description, the best resource for information. It answers many questions asked by other City of Bellevue employees. Here are other sources and approaches:

- Obtain more information from the actual Plan Document itself, available in Human Resources. The Plan Document is the authoritative document in all cases.
- Review MEBT and other City of Bellevue retirement information posted on the City's Intranet, under Human Resources, Retirement.

- Read the MEBT newsletter, enclosed with your quarterly statements.
- Attend any of the Plan Committee's meetings, announced in quarterly statements and on the Intranet.
- Attend employee workshops about the City's retirement programs, offered periodically by Retirement Services. These sessions will provide you helpful overviews of all your retirement options.

Because everyone's financial planning goals are different, the MEBT Plan Committee recommends that you consult your own financial or tax advisor to determine what retirement savings choices are right for you.

Please contact Retirement Services – Human Resources, 425-452-7198 if you have any additional questions.

