

MEBT

Municipal Employees' Benefit Trust

City of Woodinville Employees' Retirement Benefit Plan



Summary Plan Description

This Municipal Employees' Benefit Trust Summary Plan Description (SPD) is being provided to help you better understand the options for retirement savings which are 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(a) plan, and your participation is mandatory. While you are employed at the City of Woodinville, 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 19-21) 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.

Following 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 City service, you receive your vested account balance.
- The City contributes to MEBT what it would have paid to Social Security. City contributions vest, or belong to you, increasingly over time to full vesting after 5 years.
- You can make Extra Employee Contributions in the form of payroll deductions up to the Annual Additions limitation set for Extra Employee Contributions.
- 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 when you leave City service.
- 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 Woodinville's MEBT Plan provisions only. Where "MEBT" is used, it refers to the Woodinville Plan.

- 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 the Finance Department 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 three City of Woodinville employees. The City hires a team of professionals to assist with the administration of the Trust. As a participant in MEBT, you will receive quarterly account statements reporting your account balances.

Table of Contents

About the MEBT Retirement Benefits Plan

Background	1
How does the MEBT Plan work?	2
What are the benefits of participating in MEBT?	2
Who is eligible to participate and when?	3
How and when can I enroll in MEBT?	3
When will my MEBT contributions be deducted from my pay?	3
How do I designate or change a beneficiary?	3
How can I track the performance of my MEBT account?	3
How and when can I change my contributions?	4
When do I become vested, and what does it mean?	4
What happens if I leave the City before I am fully vested?	6
What happens if I am terminated for cause?	6
When can I take my money out of MEBT?	6

Contributions to Your MEBT Accounts

<i>Employee Contributions</i>	7
What are my options for contributing to MEBT?	7
What are the benefits of making pre-tax contributions?	7
Do all of my mandatory contributions go into my MEBT account?	8
What is the tax benefit of paying the MEBT life insurance premium on an after-tax basis?	8
What are the benefits of making extra employee contributions?	8
Can I roll over distributions from a former employers' retirement plan into MEBT?	8
<i>City of Woodinville Contributions</i>	9
How is the City's contribution calculated?	9
Which employee contributions are eligible for City contributions?	9

Distributions and Withdrawals

What options do I have for taking a distribution?	10
What deadlines apply for deciding on payment options?	12

<i>Distributions at Retirement or Separation from Service</i>	12
When can I take MEBT payments?	12
May I change my MEBT investment options as I approach retirement?	13
Is my account balance "fixed" at the time I separate or will it continue to gain or lose value?	13
Can I change my payment options during retirement?	13

<i>For Disability</i>	13
What happens if I become disabled?	13

<i>For Death</i>	13
What happens to my account if I die?	13
What payment options does my surviving spouse have?	14
What payment options do other beneficiaries have?	14
Who can help my family members apply for benefits if I die?	14

<i>For Early Withdrawals During Employment: Hardship and Non-Hardship</i>	14
Can I take a loan from the Plan?	14

Tax Consequences of Distributions and Withdrawals

What are the tax consequences of taking money from MEBT? 15
How may I avoid the 10% penalty? 15
Are there special IRS rules that apply to distributions if the account has after-tax and pre-tax contributions? 16

Special Circumstances

What happens if I am on military leave? 17
Is vesting portable between MEBT cities? 17
Can my MEBT account be assigned to someone else? 19
How may MEBT affect my potential Social Security benefits? 19

Claim Procedures

What if my claim is denied? 22

Overseeing Your MEBT Investments

Who makes MEBT investment decisions and how? 23
What are the duties of the Plan Committee and Trust Committee? 23
How is the value of my MEBT account determined? 23
Why do the balances in my account fluctuate? 24
Where can I go for more information about MEBT? 24

About the MEBT Retirement Benefits Plan

Background

Why does the City of Woodinville 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 March 31, 1993, the City of Woodinville elected to participate in the Municipal Employees' Benefit Trust instead of participating in Social Security. Today Bellevue, Edmonds, Federal Way, Kirkland, Mill Creek, and Redmond 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 benefits and long-term disability benefits. All employees 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 Woodinville 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 three different plans

The City of Woodinville MEBT Plan has three parts:

- **The City of Woodinville Employees' Retirement Benefit Plan** – to help you save for retirement, covered in this Summary Plan Description (SPD),
- **The City of Woodinville Employees' Long-Term Disability Plan** – to provide you with a monthly income should you become disabled while you are employed by the City, and
- **The City of Woodinville Employees' Basic Life Insurance Plan** – to provide your beneficiaries

with \$110,000 (which includes the employer paid \$10,000 life insurance policy in effect since 1994) should you die while you are employed by the City.

Other retirement savings plans offered by the City of Woodinville

The City provides the MEBT Retirement Benefit Plan to you in addition to the state-required retirement plan, PERS (Public Employees' Retirement System). Like MEBT, PERS is a mandatory plan to which you must contribute. The City also offers you an optional Deferred Compensation Section 457 Plan, currently available through the ICMA Retirement Corporation.

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

How does the MEBT Plan work?

The City of Woodinville Municipal Employees' Retirement Benefit Plan is a mandatory 401(a) retirement-savings plan. If you are eligible, you participate by contributing an amount equal to the current Social Security tax (up to Social Security limits). Part of your contribution and part of the City's contribution must, by law, be used to pay Medicare tax on your behalf. Your total contribution of 7.65% is divided between MEBT (6.2%) and Medicare (1.45%). You may also make after-tax Extra Employee Contributions, up to the Annual Additions limits described on page 8.

The City partially matches your mandatory contributions as described on page 9. 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 Woodinville Plan Committee makes decisions related to the specific administration of the Woodinville Plan.

What are the benefits of participating in MEBT?

MEBT offers City of Woodinville employees the following financial advantages:

1. ***To save for retirement*** — MEBT is a retirement savings plan. While you are employed at the City of Woodinville you are not earning Social Security credit. (For more information about how MEBT affects other Social Security earnings, see Special Circumstances, pages 19-21.)
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. City contributions first are applied to pay premiums for Basic Life

Insurance and Long-Term Disability benefits and the administrative expenses associated with the Plan. The remainder of the City's contribution is paid into your City Contribution Account.

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, will also 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 full-time or regular part-time employee (as defined in the Personnel Policies)
- You are a City Councilmember
- You are the City Manager

All others are ineligible 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 sign up by submitting a completed Enrollment form and Beneficiary Designation form.

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 22nd 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 8th 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?

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 (Pick-Up Contributions) — Your tax-deferred employee contributions (made after February 16, 2001) are deducted from your paycheck before income tax withholding is calculated, deferring taxes on your contributions and any earnings until you take a withdrawal from your account.

2. After-Tax Basic Account — You will only have after-tax basic contributions if you worked for the City prior to February 16, 2001. Basic after-tax employee contributions were deducted from employee paychecks after income tax withholding was calculated. Only the earnings on these contributions are tax-deferred.

3. After-Tax Extra Account — Any extra after-tax employee contributions you make 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 moved 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 20% each year in this account and are fully vested after 5 years of continuous service.

How and when can I change my contributions?

You may not change your mandatory contribution. Social Security contribution amounts are set by the tax code. You can change the percentage of your after-tax extra contributions at any time. To do so, complete the MEBT Enrollment/Change form, available from the Finance Department. 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 5-year vesting schedule that applies to contributions made by the City.

After 12 months of participation, you become 20% vested in your City contribution account, and your vesting increases at 1.666% per month (20% per year) after that. After five 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 in your City contribution account prior to five years of service if, while employed by the City, you die, become disabled or are laid 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 the chart below for current PERS retirement dates.

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

Illustration: Graduated Vesting for City Contributions

Veronica Smith 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 5-year vesting schedule for City contributions, Veronica is 60% vested in the City's contributions (20% for each full year of participation). Because she has participated an additional eight months, she has earned additional vesting credit of 1.666% for each of those months. Her total vesting credit in

City contributions is calculated as follows:

3 years (20% per year)	60.000%
plus 8 months x 1.666%	<u>13.328%</u>
Total Percentage Vested	73.328%

City Contributions	\$10,000.00
Vested Percentage	<u>x .73328</u>
Vested Account Balance	\$7,332.80

If Veronica were to terminate employment today, she would have 100% of her own contributions (\$11,000) and \$7,332.80 from the City's contributions. (The unvested difference of \$2,667.20 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 Woodinville, you will not receive vesting credit for months of prior service and MEBT participation. Your new vesting percentage will begin at 0%. If, in the prior illustration, Veronica Smith returned to work after being employed originally for three years and 8 months and she was 73.33% vested when she separated, at rehire her new contributions would start at 0% vesting.

What happens if I am terminated for cause?

If your employment with the City is terminated for cause, you will receive 100% of your employee contributions. Your City contribution account will be forfeited. For this purpose cause means theft or embezzlement from the City or a fellow employee, willful or malicious destruction of City or a fellow employee's property, or criminal assault on a fellow employee.

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 Woodinville for any reason
3. Disability
4. Death

See Distributions and Withdrawals starting on page 10.

Contributions to Your MEBT Accounts

Employee Contributions

What are my options for contributing to MEBT?

As an eligible employee, you make contributions to your MEBT account by contributing an amount equal to the current Social Security tax (up to Social Security limits).

Within MEBT there are three possible accounts for employee contributions. A brief description of each account follows:

Tax-Deferred Account

As an eligible employee, you participate by contributing 6.2% of your compensation through pre-tax payroll contributions. These contributions are mandatory.

Extra Account

As an eligible employee, you may contribute to your MEBT Extra Account through after-tax contributions.

For any calendar year, you may contribute up to 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 8 for more details.)

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

Ryan Miller is a new City of Woodinville employee making \$40,000 per year. By contributing 6.2% to MEBT, this chart shows how Ryan will reduce his current income taxes.

	<i>Without MEBT contribution</i>	<i>With MEBT 6.2% pre-tax contribution</i>
Ryan'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
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Result: By making pre-tax contributions of \$2,480, Ryan reduces his current taxes by \$372 (\$6,000-\$5,628). Ryan's contribution also triggers an allocation by the City to his employer account.

Do all of my mandatory contributions go into my MEBT account?

No. Part of your contribution is used to pay premiums for term life insurance for your beneficiary(ies). This amount is paid as both a pre-tax and then as an after-tax contribution under IRS rules. It then is used to purchase the life insurance outside the Plan with the rest going in the Plan. In this way, the life insurance proceeds may be paid tax free to your beneficiary(ies). The remaining amount of your mandatory contribution is a pre-tax contribution to your MEBT account.

What is the tax benefit of paying the MEBT life insurance premium on an after-tax basis?

By paying the MEBT life insurance premium on an after-tax basis, the entire proceeds of the death benefit are tax free when paid out to your beneficiary(ies). If the premiums were paid from pre-tax dollars, you would be required to include the value of the life insurance in your taxable income each year based on IRS tables.

What are the benefits of making extra employee contributions?

You may choose to make extra contributions to your MEBT Extra Account on an after-tax basis. The Internal Revenue Code limits the amount you can contribute 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.

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 \$45,000 (2007) or your annual compensation minus your employee contributions to MEBT and PERS. It is your responsibility to monitor that you are within Internal Revenue Code limits.

Can I roll over distributions from a former employer's 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 Woodinville 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 Woodinville ***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 Long-Term Disability Plan and Life Insurance. 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

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 quarterly to contributing participants. It is allocated pro-rata among those employed on the last day of the quarter or who retired during the quarter, based on individual employee contributions that are eligible for City matching contributions. Historically, that match has been about \$1.00 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?

Your mandatory contributions of 6.2% of compensation are eligible for City contributions until your compensation equals the Social Security Wage Base (\$97,500 in 2007). Both you and the City each contribute 1.45% for Medicare coverage.

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 Woodinville for any reason, except if you are terminated for cause
3. Disability
4. Death

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 16.)

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 \$1,000 or less in your vested retirement account, you are limited to a lump-sum payment or rollover, or combination thereof.

You may request or make changes in how you want to receive your distributions by completing and submitting the Participant Distribution Election Form, available from the Finance Department. 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 ¹				
	Retire or Leave City with >\$1,000 vested balance	Leave City with \$1,000 or less vested balance	Leave the City due to a disability	Death (Payment to Beneficiary) ²
Single Lump-Sum Payment	X	X	X	X
Direct Rollover (at least \$200)	X	X	X	X (spouse only)
Partial Distribution ³	X	n/a	X	N/A
Installment Payments	X	n/a	X	X
Annuity Contract	X	n/a	X	N/A
Defer Payment	X	n/a	X	X (spouse only)

¹ Combinations of the benefit-payment options are possible.
² The rules for beneficiaries are highly complex, and there are certain dates by which decisions must be made to assure appropriate benefits are received.
³ You may elect to defer part of your distribution at the time of retirement or termination. After that you may only access participant contributions for partial distributions.
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 from the Finance Department.

MEBT Benefit-Payment Options, Defined

- **Lump-Sum Payment** – You receive a single payment of the entire distribution amount. Tax penalties may apply (see page 15).
- **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. After your initial election you may only take a partial distribution from your employee contribution accounts.
- **Installment Payments** – MEBT will make periodic payments (monthly 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 (must be at least five and not more than over life expectancy)
 - Over your life expectancy
 - As a joint and survivor option (over your life and your beneficiary's life expectancy)
- **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 Finance Department. 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 Woodinville ends

If you still have an account balance when you die, additional complex restrictions and deadlines apply. Beneficiaries or their representatives should contact the Finance Department for election forms. For more details, see also, "What happens to my account if I die?" page 13.

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 13.

Effective January 1, 2007, there will be an administrative fee assessed quarterly to help pay for the administrative costs of maintaining the account. The administrative fee is based on a rolling average calculation of annual plan administrative expenses and amounts to approximately \$20 per quarter.

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 \$1,000 or less:

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 or take a distribution. Once you sign and submit your forms, your 30 day period for reviewing your distribution options ends and your payment processing will begin.

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 pages 15-16).

If your vested account balance is greater than \$1,000:

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, take a distribution, or keep your money in MEBT. If you fail to elect a distribution, the Plan

deems you to have decided to defer your distribution.

Whatever option you select, complete the distribution-election forms and submit them to the Finance Department within 30 days. Once you sign and submit your forms, your 30 day period for reviewing your distribution options ends and your payment processing will begin.

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% tax penalty, in addition to ordinary federal income taxes (see pages 15-16).

If you are a beneficiary:

Deadlines for beneficiaries are very complex, vary by circumstance, and are critical to meet. See “What happens to my account if I die?” page 13.

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 Woodinville.

If you have \$1,000 or less 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 \$1,000 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 Woodinville 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.

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 January 1, 2007, 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 \$20 per quarter.

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 the Finance Department.

For Disability

What happens if I become disabled?

If you become disabled and unable to continue your employment with the City of Woodinville and are eligible for benefits under the long-term disability policy, 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 or deferred according to the distribution options described above.

For Death

What happens to my account if I die?

If you die while employed by the City of Woodinville, 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.

Beneficiaries (or their representatives) should request information from the Finance Department 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 (at time of initial election - only applies to employee contribution accounts)
- 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

The Plan does not permit you to withdraw contributions from your account.

Can I take a loan from the Plan?

No, the Plan does not allow for loans.

Tax Consequences of Distributions

What are the tax consequences of taking money from MEBT?

Whenever you take a distribution from your MEBT account, there are likely to be tax consequences. You are responsible for reporting any distribution 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 distribution, 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 pages 15-16.

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.

- ***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 55¹
- Paid because you retire due to disability as defined by the Federal Tax 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.

¹ 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% 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.¹

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

Are there special IRS rules that apply to distributions if the account has after-tax and pre-tax contributions?

Yes. The general rule is that all distributions must include a pro rata share of taxable and after-tax amounts. MEBT has divided its accounts into two separate accounts under a special IRS rule. One account consists of all the after-tax amounts plus earnings and the other consists of all other contributions, including tax deferred contributions plus earnings.

When you elect to take a distribution, you may designate which account it should come from. This will allow you to recover your after-tax contributions more quickly, if you wish. For example, you could elect a partial distribution from your after-tax account, rollover the earnings or taxable amounts into an individual retirement account (IRA) or other eligible employer plan and keep the after-tax amounts. In this way you would pay no tax on the distribution and recover your after-tax amounts first. You can do this with installments, too. This allows you more control over when you receive your after-tax dollars.

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 the Finance Department 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 Woodinville and immediately going to work for another MEBT city
2. Begin working for Woodinville immediately following employment at another MEBT city
3. Rehired by the City of Woodinville

Leaving the City of Woodinville for employment at another MEBT city

If you leave the City of Woodinville and immediately go to work for another MEBT city, your months of participation in Woodinville's MEBT may be counted toward your vesting at your new MEBT city. The non-vested portion of your Woodinville 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 Woodinville. 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 Woodinville's MEBT. *Check with your new MEBT employer's Human Resources Department for requirements.*

Illustration - Transferring to another MEBT City with a 10-year Vesting Schedule

David Goodwin worked and participated in MEBT for two years at the City of Woodinville 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 Woodinville has a 5-year MEBT vesting schedule, so David was 40% vested in his City Contributions Account of \$2,000, for \$800 (40% of \$2,000).

When he went to work for a different MEBT City, David was eligible to transfer 100% of his employee contributions (\$2,200) and 40% (\$800) of his City Contributions.¹ David forfeited \$1,200 of his City Contributions, the remaining unvested portion (60% of \$2,000).

David 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 10-year vesting schedule, David's two years at the City of Woodinville translated to 20% vesting credit in their plan. (Two years equals 20% of ten

years.) Contributions David received from his new MEBT city were bumped down to a lower vesting schedule. Future City Contributions David will receive from the new city will begin at 20% vesting.

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

† The \$800 vested City Contributions that David transferred to his new MEBT city remained 100% vested in his new City Contributions account.

Begin working for Woodinville immediately following employment at another MEBT city

If you begin employment at Woodinville 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 upon employment with the City of Woodinville by completing the enrollment forms available from the Finance Department
- Were participating in the other MEBT city's Plan immediately prior to coming to Woodinville
- Roll over or directly transfer your current MEBT account to the City of Woodinville Plan

Illustration - Transferring to Woodinville from another MEBT City

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

The City of Bellevue has a 10-year vesting schedule in its MEBT plan, so Katie was 10% vested in Bellevue's City Contributions Account at the time she left. Katie forfeited \$1,800, or 90% of her City Contributions Account, but was fully vested in the remaining 10%, or \$200.

Katie immediately transferred her MEBT accounts (100% of her employee contributions and the vested portion of her City Contributions¹) to the City of Woodinville MEBT Plan.

Because the City of Woodinville has a 5-year vesting schedule, Katie's one year at the City of Bellevue translated to 20% vesting credit at the City of Woodinville. Future City Contributions Katie will receive from the City of Woodinville will begin at 20% vesting.

† The \$200 vested City Contributions that Katie transferred from the City of Bellevue MEBT to the City of Woodinville MEBT remained 100% vested in her new City Contributions account.

Rehired by the City of Woodinville

If you are rehired by the City of Woodinville, you will not receive credit for your months of prior participation in Woodinville's MEBT, and any previously forfeited amounts will not be returned to you.

Illustration - Rehired by the City of Woodinville

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

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

Because Woodinville's MEBT Plan has a 5-year vesting schedule, he was 20% vested in his City Contributions Account of \$2,000 at the time he separated. At separation, he forfeited \$1,600, or 80% of his City Contributions. He was vested in the remaining amount of \$400.

Later, Jack Langdon was rehired by the City of Woodinville. Jack will not receive credit for his one year of prior participation, and will restart his MEBT participation at 0% vesting for all new City Contributions. The \$1,600 previously forfeited is not reinstated into Jack's account.

Contact the Finance Department 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 the Finance Department for more information on how to proceed, including a sample order. 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 Social Security payments may be reduced depending on how many years of substantial earnings you had outside of your employment with the City of Woodinville.

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 Woodinville participates in a pension program (PERS) and does not contribute to Social Security, this provision may apply to you. Based on 2007 calculations, the maximum reduction of Social Security benefits you have or will earn is currently about \$340 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 more than 20 years, 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:¹

The first \$606 of your Average Monthly Earnings, multiplied by 90%	\$545.40
The next \$3,046, multiplied by 32%	\$974.72
The remainder (\$2,348), multiplied by 15%	+\$352.20
Monthly Social Security Benefit	\$1,872.32

¹ 2004 figures

The Windfall Elimination Provision reduces only the 90% factor in the first \$606 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 \$272.70 for 21 years, to as low as \$30.30 offset, for 29 years*)
- **If you have 20 or fewer years** of “substantial earnings” into Social Security, the 90% factor is reduced to 40%. (*\$303 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 2004 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.

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 + 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 Woodinville 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, Steven McDaniel, a City of Woodinville employee, survives his wife, who was eligible for Social Security. Her monthly Social Security payment was \$800. Without the Government Pension Offset, Steven would be entitled to half of her \$800, or \$400 per month. Steven's monthly

retirement (PERS + MEBT) is \$1,000. The Government Pension Offset deducts 2/3 of Steven's monthly retirement benefit ($\$1,000 \times .6666 = \666) from the \$400 he otherwise would have been entitled to receive. Consequently, Steven receives no Social Security as a surviving spouse.

In this case, Steven is already receiving a higher retirement benefit than he would have as a survivor. The result would be the same if Steven 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.

Claim Procedures

What if my claim is denied?

The MEBT Committee attempts to make all decisions with respect to the Woodinville 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.

What are the duties of the Plan Committee and Trust Committee?

The Plan Committee, made up of City of Woodinville employees appointed by the City Manager, maintains records and interprets and enforces Plan provisions, including eligibility and claims for benefits.

The Trust Committee 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 account fluctuate?

Because you and the City of Woodinville 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 Woodinville 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 Woodinville retirement information posted on the City's Intranet, under Human Resources, Benefits.
- Review your quarterly statement.

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 Human Resources, 425-489-2700, if you have any additional questions.