

EXPLANATION OF TAX RULES RELATING TO DEATH BENEFIT PAYMENTS TO SURVIVING SPOUSES

The Internal Revenue Code (the "Code") provides several complex rules relating to the taxation of the amounts you receive in your distribution. This notice merely summarizes these rules. WE SUGGEST THAT YOU PROMPTLY CONSULT A TAX ADVISOR IN DECIDING WHAT COURSE TO FOLLOW WITH RESPECT TO YOUR DISTRIBUTION.

SUMMARY

A death benefit payment from the Plan that is eligible for "rollover" can be taken in two ways. You can have all or any portion of your payment either (1) PAID IN A "DIRECT ROLLOVER" or (2) PAID TO YOU. This choice will affect the tax you owe.

A rollover is a payment to your traditional individual retirement arrangement (IRA) that you establish or to an eligible employer plan that will accept and hold the payment for your benefit. An "eligible employer plan" includes a plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer.

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

If you choose a DIRECT ROLLOVER:

- Your payment will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- Your payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan.

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

- You will receive only 80% of the payment, because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- Your payment will be taxed in the current year unless you roll it over.
- You can roll over all or part of the payment by paying it to your traditional IRA or to an eligible employer plan that accepts your rollover within 60 days after you receive the

payment. The amount rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

- If you want to roll over 100% of the payment to a traditional IRA or an eligible employer plan, you must find other money to replace the 20% that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

I. DIRECT ROLLOVER

A DIRECT ROLLOVER is a direct payment of the amount of your Plan benefits to a traditional IRA or an eligible employer plan that will accept it. You can choose a DIRECT ROLLOVER of all or any portion of your death benefit payment. You are not taxed on any portion of your payment for which you choose a DIRECT ROLLOVER until you later take it out of the traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any portion of your death benefit payment for which you choose a DIRECT ROLLOVER.

DIRECT ROLLOVER to a Traditional IRA. You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a traditional IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the payment. However, in choosing a traditional IRA, you may wish to make sure that the traditional IRA you choose will allow you to move all or a part of your payment to another traditional IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

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

II. PAYMENT PAID TO YOU

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

Income Tax Withholding:

Mandatory Withholding. If any portion of the death benefit payment is paid to you, the Plan is required by law to withhold 20% of that amount. This amount is sent to the IRS as federal income tax withholding. For example, if your death benefit payment is \$8,000, only \$6,400 will be paid to you because the Plan must withhold \$1,600 as income tax. However, when you prepare your income tax return for the year, you will report the full \$8,000 as a payment from the Plan. You will report the \$1,600 as tax withheld, and it will be credited against any income tax you owe for the year.

Sixty-Day Rollover Option. If any portion of the death benefit payment is paid to you, you can still decide to roll over all or part of it to a traditional IRA or to an eligible employer plan that accepts rollovers.

If you decide to roll over, you must contribute the amount of the payment you received to a traditional IRA or eligible employer plan within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

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

Example: Your death benefit payment is \$8,000, and you choose to have it paid to you. You will receive \$6,400, and \$1,600 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$6,400, you may roll over the entire \$8,000 to a traditional IRA or an eligible employer plan. To do this, you roll over the \$6,400 you received from the Plan, and you will have to find \$1,600 from other sources (your savings, a loan, etc.). In this case, the entire \$8,000 is not taxed until you take it out of the traditional IRA or an eligible employer plan. If you roll over the entire \$8,000, when you file your income tax return you may get a refund of part or all of the \$1,600 withheld.

If, on the other hand, you roll over only \$6,400, the \$1,600 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the \$1,600 withheld. (However, any refund is likely to be larger if you roll over the entire \$8,000.)

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the federal (not state or local) tax rules that might apply to your death benefit payment. The rules described above are complex. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from your Plan. Also, you can find more specific information on the tax treatment of payments from qualified employer plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office, on the IRS's Internet Web Site at www.irs.gov, or by calling 1-800-TAX-FORMS.

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RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

APPLICATION FOR PAYMENT OF DEATH BENEFIT

TO SURVIVING SPOUSE

EXPLANATION: The beneficiary of a retiree is entitled to the payment of a death benefit upon the retiree's death, under Paragraph 15.7 of the Plan. This death benefit payment is separate and apart from any refund of employee contributions (and interest) which might be payable to a beneficiary upon a retiree's death.

Under current tax law, the entire death benefit is fully taxable to the beneficiary receiving payment; except that a beneficiary who is a surviving spouse may elect to rollover the death benefit to an IRA or an eligible employer plan that will accept and hold the benefit.

This form is used by a beneficiary to elect the income tax withholding which will apply to a death benefit payment.

I. IDENTIFYING INFORMATION - Complete all lines below:

Name of Employee: _____

Employee No.: _____ Social Security No.: _____

Name of Beneficiary: _____

Mailing Address: _____

Home Telephone No.: _____ Social Security No.: _____

II. CHECK ONE OF THE BOXES BELOW:

- Non-Spouse Beneficiary - Complete Part III only, sign and date at end of form.
- Surviving Spouse Beneficiary - Complete Part IV only, sign and date at end of form.

III. NON-SPOUSE BENEFICIARY - Choose one of the following:

- The Plan should withhold 10% of my death benefit payment for federal income taxes.
- I elect that no withholding for federal income taxes be made from my death benefit payment. I understand that I may incur penalties if insufficient tax is withheld from my death benefit payment.

EXPLANATION: For a non-spouse beneficiary, the tax law requires that the Plan make income tax withholding of 10% from the death benefit payment; except that the non-spouse beneficiary may elect to not have any income tax withholding made by the Plan. A non-spouse beneficiary may not make a rollover of a death benefit payment.

IV. SURVIVING SPOUSE BENEFICIARY:

A. Review attached "Explanation of Tax Rules Relating to Death Benefit Payments to Surviving Spouses". Choose one of the following:

- Make payment of the entire death benefit directly to me. I understand that 20% of the death benefit will be withheld for federal income taxes.
- Make a direct rollover of the entire death benefit.
- Make payment of \$_____ of the death benefit directly to me, and make a direct rollover of the remainder of the death benefit.

B. Complete all lines below ONLY if you are choosing a direct rollover:

Name of IRA or eligible employer plan: _____

Name, Federal Employer Identification No. and Address of Trustee of IRA Account or of the eligible employer plan:

Name

EIN

Address

Number of IRA Account: _____

Mail check for death benefit to be rolled over (select one):

- Applicant - to forward to IRA or eligible employer plan
- Trustee of IRA or eligible employer plan

EXPLANATION: Procedures for Direct Rollover of Death Benefit by Spouse.

- (1) A Direct Rollover will be made by the mailing of a check, made payable to the trustee of the IRA or eligible employer plan designated by the applicant.
- (2) The election made on the death benefit application, to receive payment subject to withholding or to have a direct rollover made to an IRA or eligible employer plan may not later be changed by the applicant.
- (3) Only one IRA or eligible employer plan may be designated to receive a Direct Rollover.
- (4) All, or only part, of the death benefit may be designated for a Direct Rollover.

SIGNATURE

Date: _____

By: _____

Signature of Beneficiary/Applicant