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Important Information about Your 457(b) Plan **Requests for Unforeseen Emergency Withdrawals**

In this economic climate, everyone is feeling the pinch. Most of us know someone who has been laid-off, possibly even one of our own family members. For many people, just making ends meet has become a real challenge and for others the situation has become truly serious as people face foreclosure, unpaid bills and financial devastation.

Since the economic downturn began employees have, in increasing numbers, requested withdrawals from their 457(b) Plan. This plan is governed by Internal Revenue Service (IRS) rules and we thought it would be helpful to highlight those rules as they apply to this plan so that anyone considering requesting an Unforeseen Emergency Withdrawal can be prepared and fully informed.

A 457(b) Plan is a deferred compensation plan. The plan allows you to defer and not get paid a portion of each paycheck, if you so choose. Since you do not “receive” but rather “defer” those funds, the IRS says you do not have to pay taxes now because there was no “constructive receipt”. (You do not “have current use” of the money, but rather, postponed receipt until later by putting the money into the investment fund(s) of choice.)

Since the IRS allows employees to save some of their pay and not pay current taxes, the IRS places restrictions on getting this money out of the plan anytime sooner than termination of employment, death or retirement. Since the IRS governs this plan, the plan is subject to audit at any time by the IRS. An IRS audit means an agent will come onto the premises and examine all records, withdrawals, distributions and related documents to make sure the plan is administered according to their rules. It is our intention, therefore, to administer the plan strictly and in full compliance with the law.

Many City employees have worked at companies who sponsor other types of retirement savings plans like a 401(k) and mistakenly think that the hardship withdrawal rules they are familiar with apply to a 457(b) plan. The rules that govern hardship withdrawals from a 401(k) plan are different than the rules that govern an unforeseen emergency withdrawal from a 457(b) plan. Although there are some similarities, 457(b) rules are generally more restrictive.

Financial Hardship

First, there must be a “severe financial hardship” that is “immediate” and “heavy”. This means the need is current and the withdrawal would not be set aside to be used at some later date. The size of the financial burden must create a true hardship for the individual. For example, a \$5,000 expense may be a burden to someone earning \$30,000 a year where it may not be so for someone earning \$100,000 a year. Further, the hardship has to be caused by some sort of “unforeseen” event.

“Unforeseen Event”...Is it or isn’t it?

The event that caused the hardship must have been unforeseeable. The IRS says that these three event types are unforeseeable:

- Illness
- Accident
- Casualty Loss

It is pretty clear as to what constitutes an illness or accident. Casualty loss includes such unexpected events as fires, storm, lightening, earthquakes and other natural or weather related disasters.

Were the events beyond an individual’s control? Could the situation have been anticipated, avoided or budgeted? Whose emergency was this? Is the event covered by insurance? Can the financial hardship be addressed by stopping current contributions to the plan, through the liquidation of other assets (which do not in and of themselves cause a financial hardship) or by some other means? (loans, savings, credit card, etc.) These questions all must be answered before an unforeseen emergency withdrawal can be approved.

The following are some examples of events the IRS *does not* generally consider to be unforeseeable:

- Cost of education/tuition
- Normal monthly expenses – e.g., utility bills, mortgage or rent payments
- Payment on credit cards or loans
- Payment of federal, state, local or property taxes
- Elective purchase, maintenance or remodeling of a home or other real estate
- Costs associated with divorce or separation
- Purchase of an automobile or other transportation
- Automobile or appliance maintenance (fixing your car)
- Elective or cosmetic surgery
- Bankruptcy
- Legal judgments and legal fees
- Investment losses
- Gambling losses
- Wage garnishment
- Costs of adoption
- Child support payments

The distribution amount requested for the unforeseen emergency must be equal to or less than the amount of the financial hardship at hand. Withdrawals cannot be made in any amount greater than the immediate financial need. For example, a request to liquidate the entire account

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cannot be approved if the immediate financial emergency equals some amount less than the entire balance.

Certainly each and every case is slightly different than the next, but applying the IRS rules as consistently as possible to the facts and circumstances of each case will protect the 457(b) plan. If a plan administrator does not apply the rules correctly and approves Unforeseen Emergency Withdrawals regardless, the entire plan could be placed in jeopardy and the tax free status disallowed by the Internal Revenue Service.

When you are ready to submit a request for an Unforeseen Emergency Withdrawal you will need to complete the appropriate form. In addition to the form you will need to provide financial statements (savings & checking), bills that establish the exact amount of the request, proof that insurance will not cover the situation, copies of foreclosure notices and other related documents that can help support the claim. MetLife may request additional documents if what you initially submit is not sufficient to make a decision. **You will need to return the form to the address indicated, which is:**

MetLife c/o FASCore, LLC
P.O. Box 173768
Denver, Colorado 80217-3768

Express Address:
MetLife c/o FASCore, LLC
8515 E. Orchard Road
Greenwood Village, Colorado 80111

Phone #: 1(800)543-2520
Fax# 1(866) 745-5766

Once all of the required documentation has been reviewed, your request will either be approved and a distribution made or you will receive a letter explaining why the request was denied.

You can find the form by logging onto your account with MetLife at www.mlr.metlife.com Once into your account, click Forms and choose the form (Hardship Withdrawal = Unforeseen Emergency) from the menu on the left of the page.

For your convenience, we have also placed the form on the Pension & Benefits web page located under Human Resources on the City of Waterbury website.

A PIN was sent to your home by MetLife at the beginning of the City's contract with them. If you lost or cannot locate your PIN, you will need to contact one of the MetLife Representatives for assistance. Leave a message and they will call you back.

David Caraglor – Message Center #: 1(800) 492-3553 Ext. 28054
Clint Hyland – Message Center #: 1(800) 492-3553 Ext. 28111

We hope this information is helpful. You can contact your MetLife representative at the appropriate number or customer service at MetLife at the 1 (800) 543-2520 number, if you have additional questions about this topic.