COMMONLY ASKED QUESTIONS ABOUT THE RETIREMENT PLAN FOR *GALACTIC EMPLOYER SERVICES, INC.*

(Revision Four)

I. ELIGIBILITY

1. **What are the eligibility requirements?** Age 21 or above and 1000 hours of service in a year.
2. **Can the owner of a client company waive the age and service requirement initially?** Yes; the job-site employer (JSE) may indicate this on the Participating Employer Adoption Agreement.
3. **Why would the owner of the client company not want to waive these?** The more people who are on the plan increases the likelihood of testing problems. Also, increased eligibility would result in greater employer contributions if matching or profit sharing contributions are made.

II. DEFERRALS

1. **How much can a participant defer into the plan?** The lesser of 15% of compensation (subject to a maximum compensation limit of $170,000) or $10,500 (2000). However, Highly Compensated Employees (HCEs) may not be able to defer that much because they are limited by how much the non-highly compensated employees contribute.
2. **Can a participant stop deferring into the plan?** Yes; contributing is voluntary.
3. **If a participant who had stopped deferring, wanted to begin deferring again, when could he do it?** By providing written notice prior to any January 1, April 1, July 1 or October 1.
4. **What is the definition of "Highly Compensated Employee" (HCE)?** A HCE is an employee or a family member of an employee who, during the prior or current plan year owned 5% or more of the company. (A family member is defined as the spouse of a 5% owner or a lineal ascendant or descendant of a 5% owner.) Also considered highly compensated are employees whose compensation for the prior year exceeded $85,000. A record keeper may elect to treat only employees earning over $85,000, who are also in the top paid 20%, as highly compensated.
5. **How can HCEs be restricted by how much they can defer?** Generally the following formula will apply:

If the average deferral of non-highly compensated contribute:	Then the highly compensated employees may contribute:
< 2%	x 2
2 - 8 %	+ 2
> 8%	x 1.25

For example, assume a company has four employees and one HCE, the owner. All are eligible to participate in the 401(k). Three employees defer 5% of their compensation into the plan and the fourth defers nothing. The average deferral of the non-highly compensated employees is 3.75% [(5+5+5+0)/4]; therefore, the owner may defer 5.75% (3.75+2).

4. **How can employers predict what amount to defer without putting "too much" money in the plan?** Often employers will offer a discretionary matching contribution. For example, if the employer offers a match of $.50 on the dollar up to a maximum of 6% of a participant's pre-tax deferral, chances are that most of the non-highly compensated employees will defer 6% of their money to get the company match. If the average deferral of the non-HCEs is 6%, then the employer and other HCEs could defer 8% of their pay and receive the company match of 3% ($.50/$1 up to 6%).

5. **Is there a more certain way of ensuring that the employer or other HCEs will not have to worry about having deferred too much in the plan?** Yes; beginning in 1999, 401(k) retirement plans may adopt safe-harbor provisions that will allow the plan sponsor to avoid burdensome anti-discrimination and top-heavy testing requirements. Under one safe harbor option, an employer must offer matching contributions for each participant equal to 100% of the employee's contribution up to 3% of compensation and 50% of the employee's contributions from 3% to 5% of compensation. Therefore, if a participant contributes 5% of compensation, the employer would contribute 3% (100% of the first 3%) plus 1% (50% of the next 2%). For simplicity, most employers aiming to utilize this safe harbor offer a 100% match up to 4% of pay.

   An alternative safe harbor provision is for the employer to offer at least a 3% contribution to all eligible participants, regardless if the employee has elected to defer anything in the plan. Usually, employers do not opt for this provision.

III. <u>EMPLOYER CONTRIBUTIONS</u>

1. **Can a discretionary matching contribution be changed?** Yes; the company needs to announce the change and pay any contributions in arrears.
2. **How often should the matching and profit sharing contributions be collected?** The matching contributions should be collected monthly, and the profit sharing contributions should be collected annually.
3. **Does the company have to make employer contributions?** No. Unless the employer wants to satisfy the safe harbor 401(k) requirements (see section II).
4. **Can each client company make its own match or profit sharing contributions?** Yes; each client company is tested separately.
5. **Why would an employer want to make company contributions?** To encourage non-HCEs to participate and to encourage longevity since all company contributions are subject to a vesting schedule.

IV. <u>TAX CONSEQUENCES</u>

1. **From a tax standpoint what does "deferring" money into the plan mean?** For the participant deferrals are pre-federal and state (except Pennsylvania) withholding. However, the participant does have to pay FICA, as does the employer. The employer additionally is responsible for FUTA, SUTA and Workers Compensation Premium.
2. **How are the tax implications different for employer contributions?** When a participant receives employer contributions in the form of matches or profit sharing,

they do not effect his federal or state withholding. Only when the participant withdraws the funds are they subject to federal or state taxation. Unlike deferrals though, employer contributions are exempt from FICA, FUTA, SUTA and Workers Compensation Premium.

V. VESTING & FORFEITURES

1. **Which contributions are subject to a vesting schedule?** Only employer contributions are subject to a vesting schedule. Employee deferrals always are 100% vested.
2. **Explain the vesting schedule for the plan?** There is a 5-year cliff vesting schedule, which means that if a participant leaves before five years of service, he forfeits all employer contributions.
3. **When does a participant's vesting schedule commence?** The initial date of employment.
4. **Where do forfeited contributions go?** Participants who leave employment will forfeit their employer contributions which are returned to the employer. Forfeited matching contributions are used to offset future matching contributions. Forfeited profit sharing contributions are distributed among the remaining eligible employees. When these forfeitures are recycled, they are subject to the normal vesting schedule.

VI. DISBURSEMENTS

1. **When can participants take withdrawals?** While employed and at or over age 59.5, participants may withdraw money from their employee deferral account. Employer contributions cannot be accessed until retirement age, 65. Separated employees may request withdrawals from their elective deferrals and vested company contributions regardless of age.
2. **Is there a fee for taking a withdrawal?** Yes; there is a $45 charge per disbursement resulting in a Form-1099.
3. **Can one avoid the Form-1099 generation fee?** No.
4. **When does a participant have to withdraw his money form the plan?** If his assets are less than $3500 or if he is 70.5 years of age.
5. **If employees are still working and younger than age 59.5, how can they access their retirement funds?** An employee can either take a loan of 50% of their deferral account value subject to a minimum of $1000 or get a hardship withdrawal.

VII. LOANS & HARDSHIP WITHDRAWALS

1. **What interest rate does a participant pay on the loan?** The borrower pays himself back interest at prime rate.
2. **What is the term of the loan?** Five years, unless when the loan is to purchase a primary residence in which case it can be for twenty years.
3. **What is the cost of establishing the loan?** $50 one-time to the participant; $2/mo until maturity.
4. **What constitutes a hardship withdrawal?** One or more of the following: the purchase of a primary residence, medical or dental expenses, secondary education costs, due to foreclosure or eviction.

5. **What are the procedures for getting a hardship withdrawal?** The leasing organization must do the following:
    a. Ensure that the participant has taken all available distributions from the plan and has borrowed the maximum amount of loans from the plan.
    b. The withdrawal must not be greater than the amount of the hardship.
    c. Elective deferrals must be suspended for at least 12 months upon receipt of the hardship distribution.
    d. When elective deferrals resume, they must be less than the participant's deferrals prior to the hardship distribution. This reduction should last no longer than one year.
6. **What is the cost to get a hardship withdrawal?** $45 one-time fee to the borrower.

VIII. <u>TRANSFERS</u>

1. **If a client company has its own qualified retirement plan [i.e. 401(k), 401(a), Keogh, Profit sharing, Money purchase], what is involved in merging this plan into the multiple employer plan?** Complete and collect the information required in the Participating Employer Profile Information. Send copies of all these papers to the record keeper and contact Financial Consultant, Wesley Odom, for any transfer instruction paperwork. Also, inform the client company of the one-time conversion charges: $500 plus $8 per account balance. These can be deducted from the plan assets or paid separately.
2. **Which plans cannot be transferred to this 401(k)?** IRAs, ROTH IRAs, SIMPLE IRAs, SEPs, SAR-SEPs, and 403(b)s, which are also known as tax sheltered annuities.
3. **If a participant wants to transfer a 401(k) from a previous employer, how does this occur?** The participant must request a distribution form from his previous employer. On this form he should indicate his desire to transfer the funds to "BlackRock Funds 401(k) Qualified Plan, FBO (his name)", to be mailed to the leasing company. The leasing company in turn will send the check to the trust.
4. **How should a previous participant transfer his money from the multiple employer plan after separation?** He should request the distribution form from the leasing company.

IX. <u>MUTUAL FUNDS & STATEMENTS</u>

1. **What are the names of the mutual funds? Where are they in the newspaper? What are the quote symbols for the computer?** They are the BlackRock Funds, Class "C" Shares, and are located in the newspaper in the mutual funds section.

Core Bond	BCBCX	Large Cap Growth	BGECX
Small Cap Growth	CGICX	International Equity	BRICX
Small Cap Value	BSCCX	Index	CIECX
Select Equity	BSECX	Money Market	PINXX
Low Duration Bond	BLDCX	Mid Cap Growth	BMGCX
Micro Cap	BMECX	Intl Small Cap Equity	BRECX
Balanced	BRBCX		

2. **Can one access their account over the internet?** Yes; use PIN (last four of SSN).
3. **How often does a participant receive statements? What are the costs?** Quarterly; $20 a year.
4. **Where are the statements delivered?** The statements are mailed to the leasing organization for further delivery to the participants.

X. SEPARATING CLIENT COMPANY

1. **If a client company separates, can it continue to participate in the multiple employer 401(k)?** No.
2. **What are separated client company's options in regards to their plan assets?** Since the separated company cannot continue to participate in the multiple employer plan, it can either establish their own qualified retirement plan and pay to have the assets transferred to it or it could file with the IRS to terminate their participation in the plan and transfer the assets to participants who would elect either to roll the funds to their IRAs or to take withdrawals.
3. **What are the costs to transfer a client company's plan assets to that firm's own plan?** The new plan's record keeper will impose takeover fees. The leasing organization's record keeper will do so if special information is required by the new record keeper.

XI. TESTING & IRS FORM 5500

1. **What information is used to complete the testing and IRS Form 5500? When is it done?** The information on the Participating Employer Profile Information sheet and the plan contribution data supplied by the leasing organization are used to do the testing and Form 5500 at the end of the plan year.
2. **What is the cost for this?** $75

XII. TELEPHONE NUMBERS

1. **What is the number to make telephone exchanges?** (888)243-9651. The participant should have his social security number and personal identification number (PIN) handy. Initially, the PIN is the last four digits of the participant's social security number. The participant is encouraged to change the number going forward.
2. **If a participant does not remember his PIN to access the telephone exchange number (above), who needs to be contacted?** Dial (888)243-9651 between 9-5:00 EST and speak to the customer service representative.
3. **Who should be called for general plan questions?** Wesley Odom at (800)874-9968.