

KEY EMPLOYEE AND EXECUTIVE PROGRAM (KEEP)



A COMPREHENSIVE COMPENSATION SOLUTION FOR KEY EMPLOYEES
OF PUBLIC SCHOOL DISTRICTS AND COMMUNITY COLLEGES

Separation Plan



HIGHMARK
ADMINISTRATION & CONSULTING



Participation & Benefits

The Separation Plan provides a benefit at the time of your separation from service or retirement from your employer. Participation in the Plan is automatic, however, you will be required to complete the enrollment forms to establish your own account under the Plan.

At the time of separation from service or retirement, many employees have some unused vacation days or are due other non-salary payments. Prior to adopting the Separation Plan, these payments were issued through the payroll process, and both the employer and employee had to pay the statutory payroll taxes in addition to income taxes. Furthermore, the employee did not have a choice to defer these payments and delay the taxes because the separation from service automatically triggered the payment through payroll. With the Separation Plan, you now have more choices and benefits.

Any unused vacation or other payments due to you the time of separation from service or retirement will be converted to an employer contribution to the Separation Plan. Thus the Plan accomplishes two key goals. 1) Both you and the employer avoid paying the statutory payroll taxes permanently (since employer retirement plan contributions are not subjected to payroll taxes) and; 2) You receive your payment in a tax-deferred account.



Tax Deferred Account & Distributions

At the time your employer makes the contribution to your account, you do not pay any federal or state income taxes. Taxes are deferred on your entire amount, plus any investment gains, while your funds remain in your Separation Plan account.

When you request a cash distribution from the plan, you will pay income taxes on the amount you receive.

Please also note that the Plan is subject to the Required Minimum Distribution (RMD) rules once you reach age 70½.

At any time after your separation from service or retirement from your employer you may request a full or partial distribution from the Plan. You have the full flexibility of requesting your distribution based on your personal financial needs. Any amount that you request to be distributed directly to you will be subject to income taxes.

Per IRS regulations, if you are under age 55 when you separate from service, you may be subject to an additional 10% federal excise tax unless you choose to rollover your distribution.

Any amount that you choose to leave in the Plan is automatically tax deferred until you elect to receive a cash distribution. Please note that the Required Minimum Distribution (RMD) rules apply once you reach age 70½ .

Neither your employer, nor HighMark Administration & Consulting is licensed to provide tax, accounting, investment or legal advice. The Separation Plan was structured based on our understanding of the laws that govern retirement plans of this nature. Please seek the advice of a licensed professional in connection to your participation in this Plan.



EXAMPLE: (for illustration purposes only)

Let's assume that you have accumulated vacation days worth: \$25,000

If your Employer did not offer the Separation Plan:

| Vacation | Payroll Taxes | Federal | Net Payout |
|------------------------|---------------|---------------|--------------|
| Days Balance | 7.65% | Income Taxes* | to You |
| \$25,000 minus \$1,912 | minus \$5,000 | equals | \$18,088 *** |

With the Separation Plan:

| Vacation | Payroll Taxes | Federal | Net Payout |
|------------------------|---------------|---------------|--------------|
| Days Balance | 7.65% | Income Taxes* | to You** |
| \$25,000 minus \$1,912 | minus \$5,000 | equals | \$20,000 *** |

* Federal tax rate of 20% for illustration purposes only

** If you select to take an immediate distribution. If you keep your account, you may defer paying taxes on the contribution as well as the growth in your account until a later date. Requirement Minimum Distribution (RMD) rules apply when you turn age 70 1/2.

*** Amounts will vary depending on your specific situation.



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