

Retirement Savings Plan (RSP) Distribution Options After Retirement

1. You can take a lump sum withdrawal. There is a mandatory 20% federal tax withholding on your tax deferred funds and you will receive a check for the remaining 80% of the tax deferred funds plus 100% of any after-tax contributions.

- or -

2. You can roll your tax deferred RSP money into an IRA or other qualified plan. There is no tax liability for a rollover, since you are not in constructive receipt of the funds. If you have made after-tax contributions to RSP you can receive those contributions in a separate check with no tax liability.

- or -

3. You can take your money in annual installments over a 2–15 year period.

- If you take 9 installments or fewer, a 20% tax withholding is mandatory and each individual installment can be rolled to an IRA.
- If you take 10 installments or more, the tax withholding is at your discretion and the individual installments cannot be rolled to an IRA. You will still be responsible for paying taxes on this money at the end of the year.
- Your installment payment is calculated by taking your account balance each year at the anniversary of your first installment and dividing it by the number of years left in your installment process. Each installment will vary from the one before it, depending on market performance and investment direction.
- The number of installments cannot be changed once you start withdrawing your money but at any point in time you can stop the installment process and withdraw all remaining money in your account. If you wish, you can leave your money in RSP until age 70½ but you must begin taking a minimum distribution at that time; this is an IRS regulation. Your funds can be withdrawn at any time between the time you retire and the time you reach age 70½.

RSP DISTRIBUTION FAQ'S

Following are answers to commonly asked questions:

1. Do I have to be 59½ to withdraw my RSP funds without a penalty?

That depends on your age at the time you retire. If you are age 55 or older in the year in which you retire, you do not pay a penalty on RSP withdrawals. If you retire before the year in which you reach age 55, you pay a 10% penalty on any RSP withdrawals made before age 59½.

2. How soon after I retire can I withdraw my money?

There is an administrative delay of approximately one week due to payroll processing and the process by which payroll deductions are passed to the record keeper. After that time you can withdraw your money whenever you wish.

3. How soon after I request my money will I receive a check?

Distribution requests are processed daily. It's normal for distributions to be received within 10 days of request.

4. Can I withdraw only my after-tax dollars when I retire? I would like to leave the taxable dollars in the Plan.

No, once you retire you cannot take partial withdrawals from the Plan.

5. Can I withdraw my after-tax money from the Plan before I retire?

If you have after-tax contributions in the Plan made prior to 1/1/87 you can withdraw these contributions before you retire with no tax consequences. However, for any after-tax funds contributed after 1/1/87, you also need to withdraw a portion of the earnings on the after-tax money and the earnings will be subject to taxes. The earnings may also be subject to a 10% penalty tax if you're under age 59½.

6. Can I set up my RSP to pay me a set dollar amount each month or each year?

There are no RSP distribution options available that would provide you with a set dollar amount each month or year. However, there is a calculated annual installment option.

7. I have an RSP loan, how is that handled?

You can continue to make the payment on the loan each month until it has been fully repaid. Contact the Cummins Retirement Benefits Service Center (800-682-8788) for full instructions. If you do not wish to continue making payments on the loan it would be treated as a taxable distribution and would be reported on that tax year's 1099 form. You will be subject to income taxes on the loan proceeds. If you are under age 59½, you may also be subject to a 10% penalty tax.

8. **Can I take a loan from my RSP after I retire?**

You cannot take loans after you retire.

9. **Can I take periodic random withdrawals from the RSP after I retire?**

Once you retire you cannot take partial withdrawals from the Plan.

10. **If I roll my RSP money into an IRA can I still withdraw the money without penalty if I am 55 or older when I retire?**

Generally, you need to be at least 59½ in order to withdraw money from an IRA without penalty. You may be able to make substantially equal withdrawals without penalty by using the IRS 72(t) rule. Please consult with your financial advisor or tax person for further information.

11. **If I take 9 annual installments or fewer can I roll each installment directly to an IRA? If so, can my after-tax money be sent in a separate check each time I get an installment?**

Each installment can be rolled directly to an IRA and you can receive a separate check for your after-tax money.

12. **If I stop the installment process before it is complete and take all the rest of the money can I roll that money directly to an IRA?**

Yes. Regardless of the number of installments you select, deciding to stop installments at some point ends the installment "event," and the remaining balance is rollover eligible.

13. **Can I take annual installments and roll over only a portion of them?**

Yes, as long as you elect 9 or fewer installments.

14. If I take annual installments, in what order is the money taken out of my account?

The money is taken out of each investment category based on how you have invested your money. For example, if you have 50% of your money invested in a Balanced fund and the other 50% invested in a Growth fund, half of your withdrawal would come from each investment.

15. If I request a rollover to an IRA and elect Cummins in-kind, does the Cummins Retirement Benefits Service Center provide me with documentation showing what I paid for the stock for tax purposes?

On the Distribution Statement you receive there will be a line called 'Tax Basis of Stock Distributed' which represents the cost of the shares you received.

16. My company match is made in shares of Cummins stock. Can I transfer the funds to another investment in the RSP?

You can transfer your employer match to other RSP investments, regardless of your age or employee status. You may not transfer any other investment into the ESOP. Note that there may be a tax advantage to you if you elect to receive the ESOP portion as shares based on the low cost basis provided by the ESOP. Please consult a tax advisor for more detailed information.

17. When I take a distribution, what order is the money type paid?

If you take your money in annual installments, the payment is pro-rated over all the money types. Therefore if your after-tax balance is 10% of your total account balance, 10% of each installment will be after-tax dollars.

18. Do I still control my investments if I leave my money in the RSP after I retire?

You continue to control investment funds, make fund reallocations/fund transfers, receive earnings, receive annual statements indicating the status of your account, and have full access to the Cummins Retirement Benefits Service Center and the Your Benefits Resources web site.

19. Do I have to have all my money out of RSP by age 70½?

No, you just have to begin withdrawing it. If you wish, you can wait until age 70½ and take 15 annual installments.

20. If I'm still working at age 70½ do I have to begin withdrawing my RSP money?

If you are still working at age 70½ you can delay withdrawing your RSP money until you retire.

21. If I leave my money in RSP until age 70½ can I then roll it over to an IRA?

Yes, however you will still be required to begin receiving the IRS Required Minimum Distribution amount.

22. How much money do I have to take out of my IRA at age 70½?

Please consult with your financial advisor or tax consultant for information pertaining to minimum IRA withdrawals.

Note that this document is intended to summarize some of the highlights of Cummins Inc. Retirement and Savings Plan. It does not attempt to cover every detail. Complete details can only be found in the formal Plan document, which governs the operation of the Plan.