

**SUMMARY PLAN DESCRIPTION  
FOR  
HIDALGO COUNTY AFFILIATED DEPARTMENTS RETIREMENT  
PLAN**

# **SUMMARY PLAN DESCRIPTION FOR HIDALGO COUNTY AFFILIATED DEPARTMENTS RETIREMENT PLAN**

## **INTRODUCTION**

Effective January 1, 1993, County of Hidalgo Community Service; Hidalgo Urban County Program & Hidalgo County Head Start established the Hidalgo County Affiliated Departments Retirement Plan for the exclusive benefit of all eligible employees and their beneficiaries with the intention to provide a measure of retirement security for your future.

This Summary Plan Description reflects the plan options as of January 1, 2016.

This Summary Plan Description is a brief description of your plan and your rights and benefits under the plan and is not intended to cover every plan provision. This Summary Plan Description is not meant to interpret or change the provisions of your plan. A copy of your plan is on file at your employer's office and may be read by you, your beneficiaries, or your legal representatives at any reasonable time. This plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). If you have any questions regarding either your plan or this Summary Plan Description, you should ask your plan administrator. If any discrepancies exist between this Summary Plan Description and the actual provisions of the plan, the plan shall govern.

## **GENERAL INFORMATION**

**Plan Name:** Hidalgo County Affiliated Departments Retirement Plan

**Employer:** County of Hidalgo Community Service  
**Hidalgo**  
Urban County Program & Hidalgo County Head Start  
100 East Cano, 2nd Floor  
EDINBURG, TX 78539  
(956) 318-2619

**Employer Tax ID:** 74-2512905

**Three Digit Plan Number:** 001

**Type of Plan:** Cash or Deferred Profit Sharing Plan

**Administration Type:** Plan Administrator

**Plan Administrator:** County of Hidalgo Community Service  
**Hidalgo**  
Urban County Program & Hidalgo County Head Start  
100 East Cano, 2nd Floor  
EDINBURG, TX 78539  
(956) 318-2619

**Plan Administrator ID Number:** 74-2512905

**Legal Agent:** County of Hidalgo Community Service  
**Hidalgo**  
Urban County Program & Hidalgo County Head Start  
100 East Cano, 2nd Floor  
EDINBURG, TX 78539  
(956) 318-2619

Service of legal process may also be made upon a plan trustee or the plan administrator as listed herein.

**Trustees:**

Ramon Garcia  
100 East Cano, 2nd Floor  
Edinburg, TX 78539  
(956) 318-2619

Jaime Longoria  
2524 N Closner  
Edinburg, TX 78539  
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(956) 787-8127

Teresa Flores  
1901 W State Highway 107

McAllen, TX 78504  
(956) 383-0706

<b>Funding Arrangement:</b>	Trust
<b>Plan Year:</b>	January 1st to December 31st
<b>Limitation Year:</b>	January 1st to December 31st
<b>Anniversary Date:</b>	December 31st
<b>Valuation Date:</b>	The last day of the plan year Daily

## **PARTICIPATION IN YOUR PLAN**

In order to take advantage of the opportunities provided by your plan you must participate in the plan. There may be certain restrictions to your eligibility and participation. The following is information about how you can participate in the plan.

### **Who may participate?**

As an employee of County of Hidalgo Community Service; Hidalgo Urban County Program & Hidalgo County Head Start you may participate in the plan, once you have met the eligibility requirements.

### **Who is considered an employee?**

An employee is an individual who performs services for the employer as a common law employee, a self-employed individual who is treated as an employee, or a leased employee.

### **Are any employee groups ineligible to participate?**

The following individuals are not eligible for participation in the plan:

1. Employees electing not to participate in the plan.

### **What types of contributions are available in the plan?**

There are 4 different contribution types available in the plan:

1. Employer Non-Elective: This is also known as a profit sharing contribution. Your employer may, at its discretion, make a profit sharing contribution to the plan.
2. Elective Deferrals: This type of contribution is also known as a 401(k) contribution or a salary deferral contribution.
3. Employer Matching: In order to share in matching contributions, you must be making salary deferrals to the plan. Matching contributions, if any, are based on your salary deferrals.
4. Rollovers: You may make rollovers to this plan as described in the question "Does the plan accept rollovers?" in the "Contributions" section.

Also your employer may make additional employer contributions in order to pass certain nondiscrimination tests.

There are different eligibility and entry date requirements for each contribution type in the plan. Meeting all the eligibility requirements for one contribution type does not automatically make you eligible for other contributions in the plan.

### **What are the requirements to be eligible to make salary deferrals?**

There are no age or service requirements for the salary deferral portion of the plan. Once you have met this requirement, you will enter the plan on the first day of each calendar month of the plan year, coincident with or next following satisfaction of the eligibility requirements.

### **What are the requirements to be eligible for employer profit sharing contributions?**

There are no age or service requirements for the employer profit sharing portion of the plan. Once you have met this requirement, you will enter the plan on the first day of the plan year in which the eligibility requirements are satisfied.

### **What are the requirements to be eligible for matching contributions?**

There are no age or service requirements for the matching portion of the plan. Once you have met this requirement, you will enter the plan on the first day of each calendar month of the plan year, coincident with or next following satisfaction of the eligibility requirements.

**How do I start contributing salary deferrals?**

To contribute to your plan, your employer will ask you to complete a salary deferral agreement. It is here that you tell your employer how much of your income you wish to defer to your plan. These contributions will be deducted from your paycheck on a pre-tax basis. You do not have to complete a salary deferral agreement to receive an employer profit sharing contribution.

**What compensation will be used for my contributions in the plan?**

The compensation used to calculate your salary deferral contribution will be based on your

The first year you are a participant your compensation will be for the entire 12-month compensation period.

**Is there a limit on compensation for plan purposes?**

The IRS limits the amount of compensation that may be taken into account for each participant for each plan year. For 2016, that limit is \$265,000. For future years, the limit is subject to cost-of-living increases as published by the IRS.

**Does plan compensation include monies paid to me during an absence or after my employment ends?**

Usually, only the amounts paid to you while you are an employee are considered plan compensation (described above). However, the plan may consider certain types of pay as plan compensation, though paid during an absence or after you leave employment.

If you are totally and permanently disabled, compensation under your plan will include disability-related salary continuation payments, if you are not a highly compensated employee.

If you are not actively working for the employer due to military service, but are receiving compensation as if you were working for County of Hidalgo Community Service; Hidalgo Urban County Program & Hidalgo County Head Start, those payments are included as compensation under your plan.

Payments you receive after terminating employment might be considered plan compensation, if they meet the definition of "post-severance compensation." To be considered post-severance compensation, the payment must be one that you would have received had employment continued, such as your salary or wages. Post-severance compensation does not include severance pay, or other amounts you receive only because your employment ended.

To be included in plan compensation, post-severance compensation must be paid to you by the later of the end of the limitation year in which your employment ends, or within 2-1/2 months after the date your employment ends.

Payments for unused accrued sick, vacation, or other leave that you would have been able to use if your employment had continued are included in your plan's post-severance compensation.

**How are hours of service determined?**

You are credited with the actual hours you work, and for hours for which you are paid but not at work, such as paid vacation or paid sick leave.

However, if records of your hours are not maintained, as a backup method of crediting you with hours of service.

**What is a year of service for eligibility purposes?**

You will earn a year of service for purposes of eligibility if you are credited with 1 hour of service during the eligibility computation period. The "eligibility computation period" is the 12-month period that begins with the date you were hired. Thereafter the eligibility computation period becomes the plan year and begins the first day of the plan year that began in your initial eligibility computation period. Each subsequent period is the plan year.

**What is a break in service for eligibility purposes?**

When you fail to complete more than 500 hours during the eligibility computation period, you incur a break in service. However, in certain circumstances, your plan is required to credit you with 500 hours, even though you didn't actually work 500 hours. This is primarily if you take time off to have, adopt or care for a child for a period immediately following the birth or adoption. You will receive this credit only for the purpose of determining whether you have incurred a break in service and not for receiving additional credit for a contribution or for vesting.

## **CONTRIBUTIONS**

As a plan participant, you can contribute your pay on a tax-deferred basis (that is, before federal income taxes are deducted). Your employer may also make contributions to the plan.

### **YOUR CONTRIBUTIONS TO THE PLAN:**

When you enroll in the plan, you may make your salary deferrals on a pre-tax basis. You will also select the percentage or dollar amount of your pay to be deducted as a pre-tax salary deferral. Your employer will deduct the amount you've elected from your paycheck in accordance with procedures established by your employer.

### **What are pre-tax salary deferrals?**

Pre-tax salary deferrals are deducted from your pay before federal income taxes are calculated. This reduces your taxable income by the amount you have elected to save under the plan. Since your taxable income is reduced, you pay less in current federal income taxes. This money is accumulated on a tax deferred basis until it is distributed from the plan. You should consult your plan administrator or tax advisor regarding treatment of salary deferrals for purposes of state and local taxes. See "Distributions" for additional information on tax consequences when you withdraw your money from the plan.

### **Are there limits to how much I can contribute?**

The IRS limits the maximum amounts that can be contributed on a pre-tax salary deferral basis. For 2016, that limit is \$18,000. For future tax years, the limit is subject to cost-of-living increases as published by the IRS.

### **What is an automatic contribution?**

Your plan has an automatic contribution feature. If you fail to complete a deferral election provided to you by your employer, your compensation will automatically be reduced for a contribution to the plan.

An ACR (Automatic Compensation Reduction) is the type of automatic contribution feature under your plan. The ACR provisions apply to you if you do not have an election on file. Under the ACR, your compensation will be reduced for a contribution to the plan of 7.00%.

### **When can I expect my salary deferrals to be deposited?**

Salary deferrals are deposited in the trust as soon as reasonably possible, following guidelines issued by the Department of Labor.

### **When can I change my salary deferral election?**

You may make an election, or change an election at any time.

You may revoke your salary deferral election at any time.

### **What happens if I am contributing to another plan from a different employer?**

If you participate in two or more deferred compensation plans (which include 401(k), Simplified Employee Pensions and 403(b) plans), your total deferrals to all plans could exceed IRS limits for the year. To avoid paying excise taxes if excess contributions have to be returned, you may want to designate which plan is to return any excess contributions to you.

If you elect to have this plan return any excess, you should notify the plan administrator so that the excess can be returned to you, along with any earnings, before April 15th following the year in which the deferrals were withheld.

**Does the plan accept rollovers?**

Rollovers are permitted even if you are not yet a participant.

Direct transfer rollovers are permitted from a qualified plan described in Code sections 401(a) or 403(a), excluding after-tax employee contributions, an annuity contract described in Code sections 403(b), excluding after-tax employee contributions, and an eligible plan under Code section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

You may rollover an eligible distribution from a qualified plan described in Code sections 401(a) or 403(a), excluding after-tax employee contributions, an annuity contract described in Code sections 403(b), excluding after-tax employee contributions, and an eligible plan under Code section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

In-kind rollovers are permitted, except participant loans.

**YOUR COMPANY CONTRIBUTIONS TO THE PLAN:**

In addition to your salary deferrals, your employer may make other types of contributions to the plan, such as a profit sharing contribution, or a matching contribution.

**What are matching contributions?**

As an incentive to make salary deferrals to the plan your employer may contribute a certain percentage or dollar amount each year. This additional employer contribution is known as a matching contribution.

**Which employee contributions are eligible to receive matching contributions?**

Pre-tax salary deferral contributions are eligible to be matched as described in the following questions.

**Are there requirements to receive the matching contributions?**

You will be eligible to receive an allocation of matching contribution regardless of the hours you work during the plan year.

**What happens if I die, retire or become disabled during the plan year?**

If you die during the plan year, you will receive a contribution only if you have met the regular requirement(s) to receive an employer contribution. If you retire during the plan year, you will receive a contribution only if you have met the regular requirement(s) to receive an employer contribution. If you become totally disabled during the plan year, you will receive a contribution only if you have met the regular requirement(s) to receive an employer contribution.

If you die or become disabled while in qualified military service on or after January 1, 2008, you will receive an employer contribution as if you had returned to work, and then died or became disabled while working for your employer.

**How is the matching contribution determined?**

The amount of the match depends on your salary deferrals. Each year, at their discretion your employer's match may be a discretionary percentage allocated proportionate to your salary deferrals, flat dollar amount, or tiered formula, as the employer elects each year. Your employer will match your salary deferrals that do not exceed 7% of your compensation, per plan year.

**When can I expect the matching contributions to be allocated?**

The matching contributions made by your employer will be allocated to your matching contribution account as of the last day of each pay period.

**What are profit sharing contributions?**

The company may make a profit sharing contribution to the plan each year and in such amount, if any, as it may determine.

**Are there requirements to receive a profit sharing contribution?**

To be eligible to receive an allocation of the discretionary employer profit sharing contributions you must be employed on the last day of the plan year.

**What happens if I die, retire or become disabled during the plan year?**

If you die during the plan year, you will receive a contribution only if you have met the regular requirement(s) to receive a profit sharing contribution. If you retire during the plan year, you will receive a contribution only if you have met the regular requirement(s) to receive a profit sharing contribution. If you become totally disabled during the plan year, you will receive a contribution only if you have met the regular requirement(s) to receive a profit sharing contribution.

If you die or become disabled while in qualified military service on or after January 1, 2008, you will receive an employer contribution as if you had returned to work, and then died or became disabled while working for your employer.

**How is the profit sharing contribution determined?**

Your share of the discretionary contribution is allocated as a flat dollar amount to be determined each plan year by your employer. This flat dollar amount is the same for all participants.

**When can I expect the employer profit sharing contributions to be allocated?**

The profit sharing contributions made by your employer will be allocated to your profit sharing account as of each valuation date.

**When can I expect the employer contributions to be deposited?**

The employer contributions to the trust are normally paid by the company directly to the Trust either during the plan year or after the close of the plan year (within the time during which the Company has to file its federal tax return).

**When is a plan top heavy?**

The plan becomes top heavy if more than 60% of the account balances are attributable to "key employees". Key employees are certain highly compensated officers or owner/shareholders.

Each year, the plan administrator will make a top heavy determination.

**How will the plan operate in top heavy years?**

If your plan is top heavy, all participants must receive a minimum contribution for such plan year. This amount is based on the amount of contribution that the key employees receive and may be zero. There may also be a change to the vesting schedule for that year. See "What is the top heavy vesting schedule?"

**Will my employer make any other types of contributions?**

Your employer may make additional employer contributions in order to pass certain nondiscrimination tests. These are called qualified non-elective and qualified matching contributions.

Qualified non-elective contributions, if made, will be allocated in the amounts needed to pass the non-discrimination tests to participants who are employed on the last day of the plan year.

Qualified matching contributions, if made, will be allocated in the amounts needed to pass the non-discrimination tests to participants who are employed on the last day of the plan year.

## **VESTING**

Vesting is the non-forfeitable balance of your employer contribution account(s) that you will be entitled to receive after your employment with the company ends. If you terminate employment before you meet the requirements for retirement, the distribution from your employer contribution account(s) will be limited to the vested portion. Your vesting percentage grows with your years of vesting service.

### **What is a year of service for vesting purposes?**

You will earn a year of service for purposes of vesting if you are credited with 1000 hours of service during the plan year. You cannot earn more than one year of vesting service during the plan year.

### **What is a break in service for vesting purposes?**

When you fail to complete more than 500 hours during the plan year, you incur a break in service. If you have incurred a break in service, your vesting percentage will not increase for the period in which the break occurs.

However, in certain circumstances, your plan is required to credit you with 500 hours, even though you didn't actually work 500 hours. This is primarily if you take time off to have, adopt or care for a child for a period immediately following the birth or adoption. You will receive this credit only for the purpose of determining whether you have incurred a break in service and not for receiving additional credit for a contribution or for vesting.

### **Is any of my service excluded for vesting purposes?**

For purposes of vesting, all years of vesting service will be counted except:

- 1) Years excluded by the break in service rules.

### **How is my vested percentage calculated?**

If you leave employment due to termination, you are entitled to your employer accounts along with earnings, based on the following schedules:

Vesting Schedule for Employer Profit Sharing:

<u>Years of Vesting Service</u>	<u>Percent Vested</u>
Less than 1	0%
1 but less than 2	33%
2 but less than 3	66%
3 or more	100%

Vesting Schedule for Employer Matching:

<u>Years of Vesting Service</u>	<u>Percent Vested</u>
Less than 1	0%
1 but less than 2	33%
2 but less than 3	66%
3 or more	100%

Also, your vested percentage in your qualified non-elective and qualified matching contributions, if any, is always 100%.

### **What is the top heavy vesting schedule?**

When the plan is top heavy, your employer accounts will be vested according to the following top heavy vesting schedules:

Vesting Schedule for Top Heavy Employer Profit Sharing:

<u>Year(s) of Vesting Service</u>	<u>Percent Vesting</u>
Less than 1	0%
1 but less than 2	33%
2 but less than 3	66%
3 or more	100%

Vesting Schedule for Top Heavy Employer Safe Harbor ACP Matching Contribution:

<u>Years of Vesting Service</u>	<u>Percent Vested</u>
Less than 1	0%
1 but less than 2	33%
2 but less than 3	66%
3 or more	100%

**What vesting schedule applies to my employee contribution account(s)?**

Salary deferrals and rollovers along with the earnings associated with these accounts are always 100% vested.

**Does my vested percentage change if I die?**

If you die while still an employee, your employer profit sharing account, and employer matching account will become 100% vested. Your beneficiary will be entitled to receive 100% of your accounts.

**What is my vested percentage if I become disabled?**

If you are disabled while still an employee, you will be entitled to a percentage of your employer profit sharing and match accounts based on the plan's vesting schedule above. You will continue to accrue years of vesting service as if you were still employed, until you are either employed by another employer or no longer classified as being disabled.

**What happens if I terminate employment before I am fully vested?**

The non-vested portion of your account will be forfeited and used to offset plan expenses or may be used to reduce the employer or matching contribution. The forfeiture takes place as of the end of the plan year in which you receive the final (complete) distribution of your distributable benefit.

**What happens to my forfeited amounts, if I am rehired into a position covered by the plan?**

If you were not vested (that is, 0% vested), when you severed employment, and you rejoin the plan before incurring a 5-year break in service, the amounts you forfeited will be restored as of your rehire date.

If you were partially vested (more than 0% but less than 100%), and received a distribution of your vested amounts, the forfeited amount may be restored. However, to restore the forfeiture, you must repay the full amount of your distribution by the earlier of:

- \* five (5) years after your rehire date, or
- \* the date you incur a 5-year break following the date of the distribution

If you are entitled to a restoration of your account balance that was forfeited, the plan will first use any forfeitures arising in the year of restoration. If that amount is not enough, the employer will make an additional contribution specifically allocated to your account.

**If I am rehired into a position covered by the plan, how is my vesting service calculated?**

If you were fully (100%) vested at the time your employment ended, you will resume participation and be 100% vested immediately, on your rehire date. This means that the vesting service you earned prior to severing employment (pre-break) will be added to the vesting service you earn after reemployment (post-break).

If you were not fully vested when your employment ended, your pre-break vesting service will be added to your post-break vesting service, when you resume participation in the plan. Thus, your total years of vesting service are counted toward vesting in:

- \* your employer account credited after your reemployment, and
- \* the employer account remaining in the plan from your prior period of employment, if any.

## **INVESTMENT ACCOUNTS**

Under Hidalgo County Affiliated Departments Retirement Plan, the money you deposit and any employer contributions are held in a trust, and placed into investment accounts, which are credited with gains and losses at each valuation date.

Separate accounts are set up for each different type of money, for example: 401(k) deposits, matching, discretionary, rollover, employer contributions (if any) and qualified non-elective contributions because there are different plan and IRS rules for each type of contribution.

### **What is the value of my account?**

The value of each of your accounts is established as of the valuation date under your plan. The valuation date is the last day of the plan year, and daily.

As of the valuation date:

- \* Contributions may be added to your accounts (see "Contributions")
- \* Distributions you have received since the prior valuation date will be subtracted from your accounts
- \* Plan expenses may be subtracted from your accounts
- \* Interest and/or dividends, if any, will be added to your accounts

Also, current market values will be reflected in your accounts as of the valuation date. Depending on stock and/or bond market conditions, the value of your accounts may increase or decrease from one valuation date to the next.

### **How are my accounts invested?**

You may direct the investment of all of your accounts. It is intended that your plan meet the requirements of ERISA section 404(c) by providing you with sufficient information for you to make informed investment choices. This information will be provided by the financial institutions managing the investment options. This means that you exercise control over the investments in your plan account, and you can modify those investment choices as your needs change or as you otherwise see fit. This allows you to invest in the way that best meets your personal goals. Therefore, the plan fiduciaries may be relieved of liability for losses that your account may experience as a result of your investment elections.

Please note that the trustee is considered the owner of all the assets held in the trust. The trustee, as owner of the securities and other trust property, has the exclusive right to vote the stock in the trust and exercise any other rights of ownership. As a plan participant, you merely have a beneficial interest in the trust and may not exercise the rights of ownership, as can the trustee.

### **Does my plan offer life insurance as an investment?**

No. Life insurance policies are not available as a plan investment.

### **May I take a loan from my accounts?**

Your plan permits loans. See Appendix 1 - Loan Policy attached to this SPD.

### **Where can I learn about the plan expenses?**

Reasonable administrative expenses of the plan and trust may be paid by the plan to the extent not paid by the employer. For more information on plan expenses, refer to your copy of the plan's expense policy, provided by the plan administrator.

## **DISTRIBUTIONS**

### **Does my plan allow hardship distributions?**

Hardship distributions are not permitted.

### **Does the plan allow for in-service distributions?**

An in-service distribution is one that you receive while you are employed by the employer sponsoring this plan. The primary purpose of the plan is to provide benefits to you upon your retirement; however, you may request an in-service distribution of all or a portion of some of your accounts as provided below:

If you have reached normal retirement age and are at least 59-1/2, you may receive an in-service distribution of all or part of your elective account, and qualified non-elective account.

If you have reached normal retirement age, you may receive an in-service distribution of all or part of your non-elective account, matching account (to the extent matching contributions were not used in the ADP test as qualified matching contributions) and your ACP test safe harbor matching account, provided you are 100% vested in all your accounts.

You may receive an in-service distribution of all or part of your rollover account at any time.

### **What are my normal retirement benefits?**

You will reach the plan's normal retirement age when you reach age 65 and have 5 years of service while a participant, but in no event later than the later of age 65 or the 5th anniversary of your participation.

Your normal retirement date is the first day of the month coincident with or next following the date you reach normal retirement age.

At your normal retirement age, you will be fully vested in your employer contribution account.

### **When will I receive my normal retirement benefits?**

If you terminate employment as a result of retirement, payment of your benefits will begin as soon as practicable following your termination, based on your account value on the preceding valuation date.

### **When will my beneficiary receive my benefits if I die?**

Payment of your benefits will begin as soon as practicable following your death, based on your account value on the preceding valuation date.

### **Does the plan have disability benefits?**

Should you become permanently disabled while an employee, you will receive a percentage of your account balance under this plan based on the plan's vesting schedule.

You will be considered disabled if the Social Security Administration has determined that you are eligible to receive Social Security disability benefits.

You will be considered disabled as of your actual date of disability, as determined by the plan administrator.

If you terminate employment as a result of disability, payment of your benefits will begin as soon as practicable following your termination, based on your account value on the preceding valuation date.

**What benefits will I receive upon termination?**

If your employment is terminated for any reason other than those set out above, you will be entitled to that portion of your employer accounts in which you are vested.

"Vesting" refers to the percentage of your account balance you are entitled to at any point in time. For each year you remain a participant in the plan, you may become vested with a higher percentage of your employer account balance. See the "Vesting" section for more information.

Payment of your benefits will begin as soon as practicable following your termination of employment, based on your account value on the preceding valuation date.

**How might divorce or a Qualified Domestic Relations Order affect my benefits?**

Because your spouse has certain rights under your plan, you should immediately inform the plan administrator of any changes in your marital status.

In general, contributions made by you or your employer to this plan are not subject to alienation. This means they cannot be sold, used as collateral for a loan, given away or otherwise transferred. They are not subject to the claims of your creditors. However, they may be subject to claims under a Qualified Domestic Relations Order (QDRO).

A Domestic Relations Order is court-issued decree or order that allocates all or any portion of your plan benefits to your (former) spouse, your child, or other dependent. It is the plan administrator's responsibility to determine if a Domestic Relations Order is qualified (is a QDRO), as defined by law.

Distributions pursuant to a Qualified Domestic Relations Order are permitted on or after the date a Domestic Relations Order is determined to be a Qualified Domestic Relations Order, even if you are employed and have not attained the "earliest possible retirement age" (as defined below).

For QDRO purposes, the "earliest possible retirement age" means the earlier of these two dates:

1. the date you are entitled to a distribution; or
2. the later of:
  - A. the date you reach age 50; or
  - B. the earliest date you could begin receiving benefits under the plan if you separated from service.

Participants and beneficiaries can obtain, from the plan administrator, without charge, a copy of the plan's procedures governing Qualified Domestic Relations Orders.

**How will I receive my distribution?**

Your plan provides for a lump sum distribution.

**Will the plan automatically distribute any of my benefit?**

The plan may elect to make a mandatory distribution of account balances that are \$5,000 or less. The distribution will be made as soon as administratively feasible. The plan will make the distribution as a direct rollover for any amounts greater than \$1,000.00. The plan administrator will notify you, if the automatic rollover provisions apply to your distribution. After receiving this notice, you will have an opportunity to decide whether you wish to receive an automatic payment directly in cash or have it rolled into an eligible retirement plan or IRA.

The automatic rollover will be invested in an investment product designed to preserve principal and provide a reasonable rate of return, whether or not such return is guaranteed, consistent with liquidity.

### **What is a Required Minimum Distribution?**

Under certain circumstances, the law requires that your distributions begin no later than April 1 of the year following the date you reach age 70-1/2 (the date six months after your 70th birthday) if you are an owner of the company. All participants that still have a vested account balance after reaching 70-1/2 and are terminated are required to take these distributions. Your plan administrator will contact you if you are affected by this requirement.

### **How will my distributions be taxed?**

The benefits you receive from the plan will be subject to ordinary income tax in the year in which you receive the payment, unless you defer taxation by a "rollover" of your distribution into another qualified plan or an IRA. Also, in certain situations, your tax may be reduced by special tax treatment such as "10-year forward averaging."

VERY IMPORTANT NOTE: Under most circumstances, if you receive a distribution from this plan, twenty percent (20%) of your distribution will be withheld for federal income tax purposes, unless you instruct the trustees of this plan to transfer your distribution DIRECTLY into another qualified plan or an IRA. You must give these instructions to the trustees no more than 180 days before the date you receive the payment. Also, the trustees must wait at least 30 days after receiving your instructions before making the payment, to allow you time to change your decision, unless you waive the waiting period in writing.

In addition to ordinary income tax, you may be subject to a 10% tax penalty if you receive a "premature" distribution. If you receive a distribution upon terminating employment before age 55 and you don't receive the payment as a life annuity, you will be subject to the 10% penalty unless you roll over your payment. But, there is no penalty for payments due to your death or disability.

As the rules concerning "rollovers" and the taxation of benefits are complex, please consult your tax advisor before making a withdrawal or requesting a distribution from the plan. As required by law, the plan administrator will provide you with a brief explanation of the rules concerning "rollovers."

### **Who may I name as my beneficiary?**

The plan requires that your spouse be your beneficiary and receive 100% of your account balance on your death (see vesting section). You may name someone other than your spouse as your beneficiary only if your spouse gives written consent to your choice of beneficiary. A notary public or plan representative must witness your spouse's signature on the consent form. You have a right to designate your beneficiary or beneficiaries at any time. If you fail to designate a beneficiary or if your beneficiary designation is not valid, or if your beneficiary fails to survive you, then your benefits will be paid in the following order to: (1) your spouse; (2) your descendants; (3) your surviving parents in equal shares; and (4) your estate. You can designate your beneficiary by completing a beneficiary form that is provided to you or is acceptable to the Plan Administrator.

## **OTHER IMPORTANT INFORMATION**

### **Are my benefits protected?**

Except for the requirements of a Qualified Domestic Relations Order, your plan benefits are not subject to claims, indebtedness, execution, garnishment or other similar legal or equitable process. Also, you cannot voluntarily (or involuntarily) assign your benefits under this plan.

### **Can the Plan be amended or terminated?**

The employer has reserved the right to amend or terminate the plan. However, no amendment can take away any benefits you have already earned. If your plan is terminated, you will be entitled to the full amount in your account as of the date of termination, regardless of the percent you are vested at the time of termination.

### **Does Pension Benefit Guaranty Corporation Insurance apply to this plan?**

The benefits provided by this plan are not insured by the Pension Benefit Guaranty Corporation (PBGC). Such insurance is only required under Title IV of the Employee Retirement Income Security Act (ERISA) for defined benefit pension plans.

### **What are the claims for benefits procedures under this plan?**

When you request a distribution of all or any part of your account, you will contact the plan administrator who will provide you with the proper forms to make your claim for benefits.

Your claim for benefits will be given a full and fair review. However, if your claim is denied, in whole or in part, the plan administrator will notify you of the denial within 90 days of the date your claim for benefits was received, unless special circumstances delay the notification. If a delay occurs, you will be given a written notice of the reason for the delay and a date by which a final decision will be given (not more than 180 days after the receipt of your claim.)

There is an exception to the above rules if your claim is for disability benefits. The plan administrator shall notify you or your beneficiary within a reasonable period of time, but not later than 45 days after the date your claim was received.

The plan administrator may extend this deadline by up to 30 days if there are special circumstances beyond the control of the plan that require additional time to process the claim. If a delay occurs, you will be notified in writing before the end of the initial 45-day period.

If, prior to the end of the first 30-day extension period, the plan administrator determines that, due to matters beyond the control of the plan, a decision cannot be made within that extension period, the period for making the determination may be extended for up to an additional 30 days, provided that the plan administrator notifies you or your beneficiary, prior to the expiration of the first 30-day extension period, of the circumstances requiring the extension and the date as of which the plan expects to render a decision.

In the case of any extension under a claim for disability benefits, the notice of extension will specifically explain the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on your claim, and the additional information needed to resolve those issues. Further, you will be given at least 45 days within which to provide the specified information.

Notification of a denial of claims will include:

- the specific reason(s) for the denial,
- reference(s) to the plan provision(s) on which the denial is based,

a description of any additional material necessary to correct your claim and an explanation of why the material is necessary, and

an explanation of the steps to follow to appeal the denial, including notification that you (or your beneficiary) must file your appeal within 60 days of the date you receive the denial notice.

If you or your beneficiary do not file an appeal within the 60-day period, the denial will stand. If you do file an appeal within the 60 days, your employer will review the facts and hold hearings, if necessary, in order to reach a final decision. Your employer's decision will be made within 60 days of receipt of the notice of your appeal, unless an extension is needed due to special circumstances. In any event, your employer will make a decision within 120 days of the receipt of your appeal.

## **PARTICIPANT RIGHTS UNDER ERISA**

As a participant in Hidalgo County Affiliated Departments Retirement Plan you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA).

### **Receive information about your Plan and your benefits:**

ERISA provides that all plan participants shall be entitled to:

- \* Examine, without charge, at the plan administrator's office all documents governing the plan and a copy of the latest annual report filed by the plan with the U.S. Department of Labor.
- \* Obtain copies of all plan documents and other plan information upon written request to the plan administrator (the administrator may make a reasonable charge for the copies),
- \* Receive a summary of the plan's annual financial report. The plan administrator is required by law to furnish each participant with a copy of this summary annual report.
- \* Obtain a statement telling you whether you have a right to receive a benefit at normal retirement age and if so, what your benefits would be at normal retirement age if you stop working under the plan now. If you do not have a right to a benefit, the statement will tell you how many more years you have to work to get a right to a benefit. This statement must be requested in writing and is not required to be given more than once a year. The plan must provide the statement free of charge.

### **Actions by Plan Fiduciaries:**

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the plan. The people who operate your plan, called "fiduciaries" of the plan, have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries.

No one, including your employer may fire you or otherwise discriminate against you in any way to prevent you from obtaining a retirement benefit or exercising your rights under ERISA.

### **Enforcing your rights:**

If your claim for a benefit is denied in whole or in part, you have the right to know why this was done and to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request written materials from the plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator.

### **Assistance with your questions:**

If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or Federal court. In addition, if you disagree with the plan's decision or lack thereof concerning the qualified status of a domestic relations order or a medical child support order, you may file suit in Federal court.

If it should happen that plan fiduciaries misuse the plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have questions about your plan, you should contact the plan administrator. If you have any questions about this statement or your rights under ERISA, or if you need assistance in obtaining documents from the plan administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

## **APPENDIX 1 - LOAN POLICY**

Pursuant to the terms of Hidalgo County Affiliated Departments Retirement Plan ("the Plan") the Plan Administrator has adopted a participant loan program as part of such Plan and Trust. All loans granted or renewed on or after the 1st day of January, 2016 shall be made in accordance with the provisions specified in the Plan and under this Loan Policy. The Plan intends this loan program to comply with all applicable requirements under the Internal Revenue Code and by the Department of Labor. Violating the terms of this Policy may cause a loan to be treated as a taxable distribution from the Plan.

### **Administration of Program.**

The following person ("the Loan Administrator") is responsible for the administration of this loan program. All loan requests and other inquiries should be delivered to:

Teresa Flores, Diana R. Serna or Jaime Longoria  
100 East Cano, 2nd Floor  
EDINBURG, TX 78539  
(956) 318-2619

### **Application Procedure.**

The Loan Administrator will make loan applications available to any individual who has a vested interest under the Plan.

An eligible individual defined within this Policy may apply for a loan from the Plan by returning a completed loan application to the Loan Administrator.

The Loan Administrator will review the loan application for completeness. Incomplete applications will be returned and must be resubmitted for consideration. All loan applicants must meet the requirement of this Policy for consideration and approval. If the loan applicant fails to meet the requirement of this Policy and receives a loan disbursement, the loan will be treated as a "deemed distribution" and reported as taxable to the IRS.

### **Basis for Approvals.**

Loans are available to all actively employed participants and, in the event of a participant's death, his or her beneficiaries without regard to any individual's race, color, religion, sex, age or national origin.

Each application is reviewed on a nondiscriminatory basis, however its approval will depend on the participant's creditworthiness, financial need, and the purpose and terms of the loan.

If a participant defaulted on a previous loan, their loan application may be denied. In addition, if a participant submits a loan application at a time when a decision concerning a domestic relations order is pending or the Plan Administrator is on notice that divorce is in progress, the loan request will be placed on hold until the order is finalized or the determination period expires.

Once the loan is approved, a Promissory Note will be generated and issued to the participant. The participant must sign the Promissory Note to acknowledge and document the participant's receipt of the loan disbursement from the Plan and to affirm his obligation to make the required repayments.

Approved loan applications will be processed As soon as administratively possible

### **Spousal Consent.**

If a married participant submits a loan application, they must obtain the consent of his or her spouse. The

spouse must consent no earlier than 90 days before the date on which the loan is process and secured. The consent must be in writing and properly executed on the loan application and Promissory Note. The participant's spouse is required to acknowledge their consent:

- \* to the participant's pledge and assignment of 50% of vested interest in the Plan; and
- \* to the effect such consent will have on the benefit that would otherwise be paid under the Plan, in the event of a default.

The spouse must sign the consent in the presence of a Notary Public or the Plan Administrator who can attest to the spouse's willingness to consent and endorse the loan documents.

A new consent must be obtained whenever the amount of the loan is increased or if the loan is renegotiated, extended, renewed or otherwise revised.

### **Terms of the Loan.**

Subject to the limitations on the amount of any loan, a participant may request a loan

\* One or any combination of the following purposes: (1) the purchase, construction or improvement of a residence or other real estate; (2) the purchase of a vehicle (including an automobile, van, truck or recreational vehicle); (3) tuition and other educational expenses; (4) medical and dental expenses; or (5) funeral expenses of a family member.

### **Loan Amounts.**

The Loan Administrator will determine the available loan amount at the time the loan request is approved. The maximum amount of any loan is the lesser of \$50,000 or 50% of the vested interest of the participant in the Plan; reduced by the participant's highest outstanding loan balance in the previous twelve months and the existing loan balance; even if all or a portion of this amount has been repaid.

To calculate the maximum loan amount, the participant's vested interest in all plans established or maintained by the Employer or a Related Employer of the Employer will be considered. Notwithstanding, the Plan limits the minimum amount of any loan to \$1,000, the maximum amount of any loan to \$50,000 and the balance for all outstanding loans, to a single participant, may not exceed \$1.

An individual may have no more than one loan outstanding at any one time. Refinancing of an existing loan is not permitted.

### **Sources for a Loan - Accounts and Investment Options.**

The Loan Administrator shall select the accounts and investment fund or funds from which the amount necessary to grant the loan shall be taken in a non-discriminatory manner.

Loan will be prorated across all available accounts and investment funds. However, a loan will not be taken from any insurance policies.

The loan shall be established as a participant directed investment in the Plan. During the term of the loan, each scheduled principal and interest repayment shall be made to this loan account until the entire loan is paid in full.

### **Interest Rate and Fees.**

Interest will be charged on each Loan. From time to time, the Loan Administrator will review the interest rate charged for a loan, with the intention of providing the Plan with a return commensurate with the interest rates that a commercial lender would charge for loans made under similar circumstances. The interest rate will take into account your creditworthiness and the terms of the loan.

The interest rate on the loan will be based on the prime rate of interest published by The Wall Street Journal as of plus 2 percent.

Once the interest rate is determined, the amount of the loan will be amortized according to the selected repayment terms. Each repayment will include both principal and interest until the loan is no longer outstanding in the Plan.

To cover the added administrative costs associated with processing and maintaining a loan under the Plan, you will be charged a \$110.00 loan processing fee and quarterly, a loan maintenance fee of \$20.00, until the loan is paid in full. In addition, the loan maintenance fee will be charged for all years in which the loan remains in default.

### **Security for a Loan.**

All loans must be adequately secured with at least fifty percent (50%) of the present value of a participant's vested interest in the Plan. The security interest shall be determined and measured at the time the loan is granted. Each participant must secure each loan with an irrevocable pledge and assignment of at least fifty percent (50%) of their vested account balance under the Plan.

### **Repayment Terms.**

With limited exceptions, the Internal Revenue Code requires a loan to be repaid through level installment payments at least quarterly, over a period not to exceed five (5) years.

Under this Loan Policy, a loan is required to be repaid within five (5) years, starting from the payment date outlined in the Promissory Note.

However, if the loan application is for a residential loan and the Loan Administrator confirms that there is sufficient documentation that the entire proceeds of the loan will be used to acquire a dwelling unit that will be used as their principal residence, within a reasonable time, then this residential loan must be repaid within 10 years of the original date of the loan.

A principal residence is a house, apartment, condominium or mobile home (not used on a transient basis) established and used as the participant's principal dwelling unit.

Loans are to be repaid based on substantially level amortization over the term of the loan with payments made through salary reduction each pay period. These payments may be made by cashier's check or money order.

**Early Payoff:** If the participant notifies the Loan Administrator in writing, they may elect to accelerate their loan payment, by making one or more schedule payments. These payments may be made by cashier's check or money order.

**Special Provisions for Military Service:** The Loan Administrator may temporarily suspend loan repayments, if a participant is not actively employed due to a qualified military leave or because they are performing service in the uniformed services (as defined in chapter 43 of title 38 United States Code). In addition, the period of military suspension will extend the original loan term.

Once the military service has ended, loan repayments must resume. The loan must be repaid in full by the end of its original term plus the period of military service.

For example, if the loan was due in 5 years, and the military leave was for 18 months, then the Loan Administrator would extend the 5 years, by the length of the military leave. The final installment payment would be due within 6 years and 6 months of the date it was originally issued.

In addition, upon receipt of proper notice of active military service, the Loan Administrator will reduce the interest rate on any outstanding Loan to six percent (6%) during a period of military service.

### **Repayment upon Termination.**

When a participant no longer works for the Employer sponsoring the Plan, the repayment terms within the Promissory Note, are accelerated. Under these terms, the participant is required to either pay off the outstanding loan balance or have the outstanding loan treated as a taxable distribution. The terminated participant must make arrangements, before a final distribution is processed to pay off the entire outstanding loan balance.

Without this arrangement, when a distributable event occurs for the participant, their final distribution will be reduced ("offset") by the outstanding loan amount (including interest accruing through the distribution date). The offset amount will be reported on IRS Form 1099-R as a taxable distribution.

The Plan may permit a terminated participant, who has elected to defer receipt of a final distribution, to continue making scheduled installment payments on their outstanding loan. The terminated participant must contact the Plan Administrator for repayment options.

#### **Default.**

A loan is in default when a scheduled installment payment has not been received by the scheduled due date. If the participant fails to arrange for the repayment of the missed payments, in a manner that is reasonably acceptable to the Loan Administrator, the remaining principal and accrued interest on the loan shall be declared due and payable.

The missed payment must be received by the last day of the calendar quarter following the calendar quarter in which the last scheduled installment payment was due. After this date, the Loan Administrator will notify the participant in writing that the loan is in default and that the outstanding loan (including accrued interest) will become taxable and treated as a "deemed distribution".

The defaulted loan (outstanding principal plus accruing interest) will be reported as personal income on Form 1099R. It will be subject to federal and state income taxes, and a 10% penalty tax, if the default occurs before age 59.5.

The participant is still under an obligation to the Plan to repay the loan. Therefore the Promissory Note will remain outstanding. This outstanding loan obligation will not be offset against the participant's vested account balance until he or she severs their employment with Employer sponsoring the loan program, retires, dies, becomes disabled and takes their final distribution; or until he or she reaches the earliest date on which an in-service distribution is permitted under the Plan.