

Frequently asked questions pertaining to the Roth in-plan conversion feature

The following information is meant to help explain the Roth in-plan conversion feature added to the Northrop Grumman Savings Plan on Nov. 2, 2020. You should consult your tax advisor before deciding whether a Roth in-plan conversion is right for you.

For general information on Roth contributions, visit the Northrop Grumman Savings Plan Summary Plan Description available on Fidelity NetBenefits® at netbenefits.com/northropgrumman or call the Northrop Grumman Benefits Center at 800-894-4194.

ROTH 401(k) IN-PLAN CONVERSION

General

1. What is a Roth 401(k) in-plan conversion?

A Roth 401(k) in-plan conversion allows you to move money that you have saved in certain non-Roth sources within the Northrop Grumman Savings Plan into a designated Roth account within your Northrop Grumman Savings Plan account. Please note that amounts already held in a Roth account, as well as certain non-Roth amounts described below are not eligible for conversion.

2. The Northrop Grumman Savings Plan already has a Roth feature. Why has the Roth 401(k) in-plan conversion feature been added to the Northrop Grumman Savings Plan?

Roth 401(k) contributions are contributions you can elect to make with after-tax dollars that are kept in a Roth 401(k) account within the Plan. Federal law limits the total amount of Roth 401(k) contributions that you can make from your paycheck each year. A Roth in-plan conversion is an opportunity to convert other accounts to Roth contribution status after that non-Roth money has already been contributed to the Northrop Grumman Savings Plan, thus allowing you to increase your total Roth-type savings. The Roth in-plan conversion feature has been added to provide you with additional flexibility with respect to your retirement, savings and tax diversification strategy.

3. Who is eligible to request a Roth 401(k) in-plan conversion?

You are generally eligible to request a Roth in-plan conversion if you have a vested account balance in the Northrop Grumman Savings Plan. Please note that a few limited sources are not eligible for conversion as described in detail below. Also, the Roth in-plan conversion feature is not available to certain non-spousal beneficiaries.

Making a Roth-In Plan Conversion

4. How do I convert my money to a Roth account within the Northrop Grumman Savings Plan?

If you wish to request a transaction or simply discuss your options, contact the Northrop Grumman Benefits Center at 800-894-4194 to speak with a representative. The representative will review your account with you and provide you with available options for completing a Roth in-plan conversion. You must call the Northrop Grumman Benefits Center

to request a Roth in-plan conversion. You should consult your tax advisor for assistance in deciding whether a Roth in-plan conversion is right for you; the Northrop Grumman Benefits Center cannot provide you with tax or financial advice.

5. Do I have to pay a fee to convert non-Roth amounts to a Roth account?

No. You will not be charged a fee to convert eligible contributions to a Roth account.

6. Which accounts may I convert?

You can convert most of your vested account sources. Note that certain sources (the Avondale, Company Basic and Prior Plan Money Purchase Plan sources) are not eligible for conversion. You can also convert a portion of your contribution sources – for instance, you could elect to convert just some or all of just your after-tax contributions and not convert your pre-tax contributions.

7. Can the Roth in-plan conversion feature be set up to happen automatically?

You can elect to have your ongoing after-tax contributions to the NGSP automatically convert to a Roth account within the Northrop Grumman Savings Plan. The automated conversion feature allows you to build your Roth savings beyond the level available through payroll contributions alone. Additionally, converting after-tax contributions automatically to Roth status can help avoid generating in-plan investment earnings that would be taxable upon conversion.

To avoid additional taxable income on these automatic conversions, all of your eligible non-Roth after-tax account balances must first be converted to a Roth account. This will require you to pay tax on any associated investment earnings for the tax year of the initial conversion. Contact the Northrop Grumman Benefits Center at 800-894-4194 for more information and to make this election.

8. Can I reverse my Roth in-plan conversion and return the funds to their original source?

No. A Roth in-plan conversion cannot be reversed. The converted amounts cannot be returned to the original source or tax status. The decision to convert non-Roth money to a Roth account is completely optional, and you should carefully consider your decision before moving forward.

9. How will the converted funds be invested?

Your underlying investments will not change as a result of the conversion.

10. Will the converted assets in the Roth 401(k) account be eligible for withdrawals and loans?

This depends upon your individual situation. If you convert money that was already immediately available for a withdrawal, this money will still be available to you under the same rules. However, if you convert money that was not available for a withdrawal, those assets will remain unavailable for a withdrawal, just as before the conversion. Also, keep in mind that you may be required to pay an additional 10% early withdrawal tax if certain eligibility requirements are not met.

Money in a converted Roth account will be available for loans after conversion to the same extent it was available before conversion. You can't convert an outstanding loan balance to Roth status, but a Roth conversion of some or all of the other non-Roth amounts in your account won't affect the repayment schedule of any loan that you may have outstanding.

Tax Considerations

11. Are there tax consequences to a Roth in-plan conversions?

Yes. A Roth in-plan conversion usually results in taxable income for the year of conversion, although the tax consequences can vary based on the type of contribution that is converted. You have to pay taxes on both the base contributions and any associated earnings if you convert pre-tax contributions (i.e., your pre-tax elective contributions and eligible employer contributions) to a Roth 401(k) account. For after-tax contributions, you do not have to pay taxes on the base contributions (because these contributions were deducted from your pay check after taxes were withheld). However, you do have to pay taxes on any earnings that accrued between when the base after-tax contributions were made and when you convert an after-tax account source to Roth status.

12. Are taxes withheld at the time of the Roth in-plan conversions?

No. Taxes incurred as a result of an in-plan conversion are not withheld from your paycheck or converted contributions. You are still responsible for the tax liability, so you will need to plan ahead to make sure you have adequate resources to cover the taxes due. You will receive an IRS Form 1099-R at the beginning of the next calendar year which will include consolidated tax information on all of your applicable conversions for the prior year.

13. Are Roth in-plan conversion amounts subject to the Internal Revenue Service required minimum distribution (RMD) rules?

Yes. Converted amounts are subject to the RMD rules while held in the Plan.

14. What is the tax treatment of a distribution from a Roth in-plan conversion account?

Distributions from a Roth in-plan conversion account are taxed in the same manner as distributions from a Roth 401(k) account. That is, a distribution is not subject to Federal tax if you take a "qualified distribution." For payment to be a qualified distribution, you must have had a Roth account under the Northrop Grumman Savings Plan (and/or another plan from which you made a direct Roth rollover into the Northrop Grumman Savings Plan or from which a transfer of Roth amounts was received) for at least five years, and the distribution must be made after you reach age 59 ½ (or become disabled or die).

If your payment is not a qualified distribution, you won't pay taxes again on the base contributions and investment earnings that were taxed at the time of the conversion or on converted after-tax contributions, but you will be subject to tax on investment earnings after the conversion date. Please consult your tax advisor with any questions, and to determine the state income tax rules applicable to you.

If You Have Questions

15. Who can I contact if I have additional questions about this Roth in-plan conversion feature?

If you would like additional information about this feature, please contact the Northrop Grumman Benefits Center at 800-894-4194 to speak to a representative. Remember, a Roth in-plan conversion is not appropriate in all situations. We recommend that you discuss with your tax advisor to help you determine whether this feature is appropriate for you.

Legal Disclaimer:

These frequently asked questions are intended to provide a summary explanation of the Roth in-plan conversion feature only and do not describe all aspects of the Northrop Grumman Savings Plan. If a conflict arises between this communication and the official plan documents, then the plan document will always govern. Additionally, this document is not intended to provide tax, financial planning, or legal advice. You should consult with a professional for personalized advice.