Maximizing Your Tax Advantages through the Pfizer Savings Plan

Available PSP Contribution Types

- Before-tax
- Roth 401(k)
- After-tax
- Catch-up

You may contribute up to 30% in before-tax, Roth 401(k) and after-tax contributions, or any combination of these contribution types (up to Internal Revenue Code, or IRC, limits). Remember, Pfizer matches 100% of the first three percent and 50% of the next three percent on these contributions each pay period for a total of 4.5 percent on the first six percent of savings plan eligible pay that you contribute.

It is important to know how these different contributions work so you can choose the type of contribution or mix that best meets your individual objectives.

Contribution Types Side-by-Side

Here is a high-level explanation of the tax impact on the different contribution types available through the PSP.

<table>
<thead>
<tr>
<th>Contributions Are Made:</th>
<th>BEFORE-TAX</th>
<th>ROTH 401(K)</th>
<th>AFTER-TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before taxes are withheld</td>
<td>After taxes are withheld</td>
<td>No taxes on contributions or investment earnings when withdrawn if it’s a qualified distribution*</td>
<td></td>
</tr>
<tr>
<td>Contributions and investment earnings are taxed when withdrawn</td>
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<td>No taxes on contributions when withdrawn, investment earnings are taxed when withdrawn</td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Taxes on Company Matching Contributions and Investment Earnings:</th>
<th>Company matching contributions and associated investment earnings are taxed when withdrawn</th>
</tr>
</thead>
</table>

* Generally, upon retirement or at termination, Roth 401(k) contributions and associated earnings can be withdrawn tax-free (also known as a qualified distribution) as long as it has been five tax years since your first Roth 401(k) contribution and you are at least 59½ years old, disabled or deceased. This is known as the “five-year rule.” If you choose to make Roth 401(k) contributions from your paycheck, the date of first contribution will be used to determine the five-year rule.

Note that the IRC limits the amount you can contribute on a before-tax and/or Roth 401(k) basis each year. For 2014, that limit is $17,500. If you are age 50 or older, you may elect to make “catch-up” contributions of up to $5,500 (the 2014 limit) annually in before-tax and/or Roth catch-up contributions. The IRC also limits your total before-tax, Roth 401(k), after-tax and Pfizer contributions each year (for 2014, that limit is $52,000 or your annual pay, if less). This limit does not include catch-up contributions if you are age 50 or older.

The PSP allows you to make additional contributions after federal, state and local taxes have been taken out. You may elect to make after-tax contributions in addition to before-tax and/or Roth 401(k) contributions, or you may choose to make after-tax contributions once you hit the IRC before-tax and Roth 401(k) limit by choosing the “spillover contributions” option. For example, if you elect this option in 2014, any money you contribute beyond the $17,500 IRC limit will be automatically taken as after-tax contributions, up to the IRC total contribution limit of $52,000.
Things to Consider When Making Your Choice

» Why you may want to make before-tax contributions: Before-tax contributions allow you to build your savings with money before it is taxed, and also allow you to pay less in taxes now by reducing the amount of your pay that is subject to taxes. Before-tax contributions make sense if you expect your tax rate to be lower when you retire than it is when you make the contributions.

» Why you may want to make Roth 401(k) contributions: Roth 401(k) contributions are taxed when you make them, but allow you to grow your savings on a potentially tax-free basis (as part of a qualified distribution as described in the box to the right). Roth 401(k) contributions make sense if you expect your tax rate to be higher when you retire than it is when you make the contributions.

» Why you may want to make after-tax contributions: After-tax contributions are taxed when you make them, yet the earnings on these contributions grow tax-deferred. After-tax contributions allow you the opportunity to save beyond the $17,500 before-tax/Roth 401(k) limit and continue to receive the Pfizer company matching contributions.

Tax Benefits Now or Later — You Decide

Saving for retirement through before-tax contributions is a smart financial move in many ways, allowing you to build your account balance with money before it’s taxed, and helping you reduce the amount of your current income that is subject to taxes. But paying taxes now by making Roth 401(k) contributions could have its advantages, too. Consider the following example — the difference could be substantial.

» Both James and Maria are 45 years old, earn the same pay and will save to age 65 with the same investment returns

» Based on their contribution types, James will pay income taxes on his contributions and earnings when he withdraws them at retirement, while Maria pays taxes on her contributions when they are made, but will not pay taxes on her contributions or investment earnings when she withdraws them at retirement (as long as it’s a qualified distribution as described in the box above)

» Both James and Maria are in a 25% tax bracket

Roth 401(k) and Qualified Distributions
While both Roth 401(k) and after-tax contributions are taken after federal, state and local taxes have been taken out, Roth 401(k) contributions are tax-free when you withdraw them as long as you meet the conditions for a qualified distribution: you take the distribution at least five tax years from the year of your first Roth contribution and after you have reached age 59½, become disabled or deceased.

JAMES

$17,500 in annual before-tax contributions

Monthly after-tax paycheck reduction = $1,093.75
(Tax Savings: $364.58)

Total payroll deductions over 20 years = $262,500
(Tax Savings during Contribution Period: $87,500)

Potential account value in 20 years:
Minus 25% taxes at withdrawal:
Net value: $556,579
Total taxes paid: $185,527

MARIA

$17,500 in annual Roth 401(k) contributions

Monthly after-tax paycheck reduction = $1,458.33
(Tax Savings: $0)

Total payroll deductions over 20 years = $350,000
(Tax Savings during Contribution Period: $0)

Potential account value in 20 years:
Minus taxes at withdrawal:
Net value: $742,106
Total taxes paid: $87,500

Keep in mind Maria paid taxes on her Roth 401(k) contributions as those contributions were made, and therefore had less take-home pay during the 20-year contribution period due to higher monthly payroll deductions throughout the period. However, because she already paid taxes on her contributions, Maria pays about $100,000 less in taxes and therefore receives a substantially higher amount upon distribution than James because he pays taxes on his contributions and investment earnings upon distribution.

A FEW NOTES ON THE ABOVE EXAMPLE

» For purposes of this example, no Pfizer matching contributions are included in the above balances.

» In this scenario the colleagues would need to have the spillover election in place to convert to after-tax upon reaching the IRC limit ($17,500 in 2014) on before-tax and/or Roth 401(k) contributions.
Roth 401(k) In-Plan Conversion

The PSP allows you to convert eligible account balances in the PSP to after-tax Roth 401(k) contributions through the Roth 401(k) In-Plan Conversion feature. Eligible account balances typically include those that are immediately distributable to you and eligible to be rolled over to an individual retirement account ("IRA"), including:

» If you are at least age 59½, generally all contributions in the PSP; or

» If you have not yet reached age 59½, Pfizer matching contributions may be eligible for conversion provided they have been in the plan for at least 24 months or you have been a participant in the PSP for at least five years. You may also convert your after-tax accounts within the PSP.

Amounts that are distributable to you as a result of a hardship or as a minimum required distribution do not satisfy these requirements and may not be converted. Any money you convert through this Roth 401(k) In-Plan Conversion feature is tracked separately for tax purposes.

If you elect to make a Roth 401(k) In-Plan Conversion, the amount you convert will be included in your gross income in the year of the conversion and will be treated as a distribution. You will receive a Form 1099-R from Fidelity in January of the year following the year in which you made the conversion. You will need to include the amount you converted in your gross income when calculating your tax liability for the year.

When you later take a distribution of this money from the plan, you will not be taxed on your distribution, including any investment earnings on the amount you converted provided it is a qualified distribution (one that is taken at least five calendar years after you make your first Roth 401(k) contribution (including any contributions from your paycheck) and after you have reached age 59½ or become disabled, or after your death).

There are several factors to consider when determining if the Roth 401(k) In-Plan Conversion feature is right for you, including tax planning strategies, your age, and cash that may be needed to pay taxes on the converted amounts. You should consult a tax or financial advisor before deciding whether this is right for you.
Don’t Go It Alone —
Life Stages is Here to Help

Use the available Life Stages tools and resources to learn more about the differences between the available contribution amounts and to make changes.

» Find out more about Roth 401(k) contributions by going to www.hrSourcebenefits.pfizer.com. From the Library tab, click on ‘Calculators and Tools’ at bottom right, then scroll down to find the Roth 401(k) Modeler. The Modeler will allow you to view hypothetical scenarios showing some differences between Roth 401(k) and before-tax contributions.

» To see your elections and/or to make changes to your contributions, go to www.hrSourcebenefits.pfizer.com. From the Accounts tab click on your PSP account, then on ‘Contribution Amount’ on the navigation bar on the left.

» You can also speak with a Fidelity Workplace Guidance Representative. Just call 1-866-973-5023, or call the hrSource Center at 1-866-4 SOURCE (1-866-476-8723) and follow the prompts to Retirement, Pension and Retiree Medical or Financial Planning, then follow the prompt for Financial Planning. Guidance representatives are available Monday through Friday from 8:30 a.m. to 8:30 p.m., Eastern time.

Taking Full Tax Advantage of
Your Catch-Up Contributions

The PSP allows those age 50 or older to make additional catch-up contributions each year. For 2014, that additional amount is $5,500 in before-tax and/or Roth catch-up contributions. Did you know that you can take full advantage of the tax benefit of catch-up contributions even if you don’t want to contribute an extra $5,500 into the PSP? Go to page 5 to find out how.

Helpful Questions to Ask Yourself

» Do you want to reduce your current taxes?
   If you’re looking for ways to reduce your taxable income now, before-tax contributions may be the way to go.

» Do you want to reduce your future tax rate or expect your income to rise substantially in the future?
   If so, Roth 401(k) contributions may fit your situation better, especially if you think your tax rate may be higher when you plan to withdraw your savings.

» Are you looking for tax diversification?
   A blend of before-tax and Roth 401(k) contributions may make sense for you.

» Do you have several years until retirement?
   If you have several years until you plan to withdraw your money from the PSP, it may be better to pay taxes on your contributions now through Roth 401(k) contributions. This is because the associated earnings could be a substantial portion of your account in the future. Earnings on Roth 401(k) contributions are distributed tax-free if they are withdrawn as part of a qualified distribution, as described on page 2.
# Catch-Up Contribution Worksheet

Note: Before you begin, please make sure that you have a spillover election in place.

If you are age 50 or older in 2014, you can make an additional $5,500 in before-tax and/or Roth catch-up contributions annually to the PSP. You can take full advantage of the tax benefit of catch-up contributions even if you don’t want to contribute an extra $5,500 into the PSP. Consider the following example:

A colleague makes $130,000 a year, and wants to contribute the maximum allowed by Pfizer (30%) to the PSP. This comes out to $39,000 in contributions a year ($130,000 \times .30 = $39,000). If she doesn’t use any catch-up contributions she would only be able to contribute $17,500 annually (indexed for inflation) in before-tax and/or Roth 401(k) contributions, and would need to contribute the remaining $21,500 ($39,000 – $17,500 = $21,500) on an after-tax basis.

However, if she uses catch-up contributions, she could add the $5,500 to the amount she would otherwise make annually in before-tax and/or Roth 401(k) contributions for a total of $23,000 ($17,500 + $5,500 = $23,000). She would then only need to make an additional $16,000 in annual after-tax contributions to contribute the maximum allowed $39,000 (or $39,000). She has basically shifted the $5,500 into a more “tax-advantaged” contribution type.

## 1. Enter annual salary:

## 2. Enter desired percentage of total contributions as a decimal point (example: 20% = .20):

## 3. Multiply rows 1 and 2 and enter amount here:

<table>
<thead>
<tr>
<th>Row</th>
<th>Calculation</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>$17,500</td>
<td></td>
</tr>
</tbody>
</table>

## 4. Maximum amount of before-tax and Roth 401(k) contributions allowed in 2014

$17,500

## 5. Subtract row 4 from row 3 and enter amount here (if above zero):

## 6. Enter desired amount of catch-up contributions for 2014 (maximum allowable $5,500):

## 7. Subtract row 6 from row 3 and enter amount here

These should be your approximate total before-tax and Roth 401(k) contributions with spillover contributions

## 8. Divide row 7 by row 1 and enter rounded up amount here

This is the total percent of before-tax and/or Roth 401(k) contributions you should elect (be sure to round up to the next full percent)

## 9. Multiply row 8 by row 1 and enter amount here

This should be your actual total before-tax and Roth 401(k) contributions with spillover contributions

## 10. Subtract row 9 from row 3 and enter amount here

This is the total annual amount of catch-up contributions for 2014

## 11. Divide row 10 by the number of your remaining paychecks and enter amount here

This is the amount of catch-up contributions you should elect as your per-paycheck payroll deduction.

| Total before-tax and Roth 401(k) contributions | $17,500 |
| Total after-tax contributions                   | $16,000 |
| Total catch-up contributions                    | + $5,500 |
| Total contributions                             | $39,000 |

Use the number in row 8 to elect your total before-tax and Roth 401(k) contributions, or any combination thereof. Then, use the number in row 11 to elect your per-paycheck catch-up contributions payroll deduction.