

## DISCLOSURE STATEMENT AMENDMENT

**AMENDMENT TO YOUR INHERITED ROTH IRA**

This inherited Roth IRA disclosure statement amendment updates your Inherited Roth Individual Retirement Account (IRA) documents that we previously provided to you. The information provided below amends your disclosure statement for recent law changes resulting from the Further Consolidated Appropriations Act, Setting Every Community Up for Retirement Enhancement (SECURE) Act, signed into law in December 2019, which requires more rapid payouts for nonspouse beneficiaries (with some exceptions). This amendment also incorporates changes resulting from the Coronavirus Aid, Relief and Economic Security (CARES) Act, signed into law in March 2020, which waives required minimum distributions for 2020, extends the five-year period for beneficiary distributions, and provides coronavirus-related tax relief for eligible individuals.

Unless directed by us to do so, you do not need to sign or return anything to us for this amendment to apply to your inherited Roth IRA. The beneficiary designation we may have on file will remain in effect unless you change it by completing and signing the form that we have for this purpose.

We recommend that you review this information carefully and keep it with your other inherited Roth IRA papers.

**REQUIREMENTS OF AN INHERITED ROTH IRA**

- A. **Form of Contribution** – Your contribution must be either a rollover contribution from an eligible inherited employer-sponsored retirement plan or a transfer contribution from an inherited Roth IRA. Your rollover or transfer contribution may be in cash and/or property.
- B. **Contribution Restrictions** – You may not make regular contributions to your inherited Roth IRA.
- C. **Nonforfeitable** – Your interest in your inherited Roth IRA is nonforfeitable.
- D. **Eligible Trustees/Custodians** – The trustee/custodian of your inherited Roth IRA must be a bank, savings and loan association, credit union, or a person or entity approved by the Secretary of the Treasury.
- E. **Commingling Assets** – The assets of your inherited Roth IRA cannot be commingled with other property except in a common trust fund or common investment fund.
- F. **Life Insurance** – No portion of your inherited Roth IRA may be invested in life insurance contracts.
- G. **Collectibles** – You may not invest the assets of your inherited Roth IRA in collectibles (within the meaning of IRC Sec. 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Internal Revenue Service (IRS). However, specially minted United States gold and silver coins, and certain state-issued coins are permissible investments. Platinum coins and certain gold, silver, platinum, or palladium bullion (as described in IRC Sec. 408(m)(3)) are also permitted as inherited Roth IRA investments.
- H. **Required Minimum Distributions** – You are required to take minimum distributions from your inherited Roth IRA at certain times in accordance with Treasury Regulation 1.408-8. The calculation of the required minimum distribution is based, in part, on determining the original owner's designated beneficiary. A designated beneficiary is determined based on the beneficiaries designated as of the date of the original owner's death, who remain beneficiaries as of September 30 of the

year following the year of the original owner's death. Any payment elections you either made or defaulted to under an inherited retirement plan or Roth IRA generally carry over to this inherited Roth IRA. Below is a summary of the inherited Roth IRA distribution rules.

If you fail to remove a required minimum distribution, an additional penalty tax of 50 percent is imposed on the amount of the required minimum distribution that should have been taken but was not. You must file IRS Form 5329 along with your income tax return to report and remit any additional taxes to the IRS.

**Death of Original Owner Before January 1, 2020**

1. If you are the beneficiary of a deceased employer-sponsored retirement plan participant, and the original participant died
  - (a) on or after his or her required beginning date, distributions must be made to you over the longer of your single life expectancy, or the original participant's remaining life expectancy. If the original participant's designated beneficiary was not an individual or qualified trust as defined in the Treasury Regulations, the original employer-sponsored retirement plan will be treated as having no designated beneficiary for purposes of determining the distribution period. If there is no designated beneficiary of the original employer-sponsored retirement plan, distributions will commence using the original participant's single life expectancy, reduced by one in each subsequent year.
  - (b) before his or her required beginning date, the entire amount remaining in the account will, at your election, either
    - (i) be distributed by December 31 of the year containing the fifth anniversary of the original participant's death, or
    - (ii) be distributed over your remaining life expectancy.

If the original participant's spouse is the sole designated beneficiary, he or she must elect either option (i) or (ii) by the earlier of December 31 of the year containing the fifth anniversary of the original participant's death, or December 31 of the year life expectancy payments would be required to begin. A designated beneficiary of the original participant, other than a spouse who is the sole designated beneficiary, must elect either option (i) or (ii) by December 31 of the year following the year of the original participant's death. If no election is made, the distribution will be calculated in accordance with option (ii). In the case of distributions under option (ii), distributions must commence by December 31 of the year following the year of the original participant's death. Generally, if the original participant's spouse is the designated beneficiary, distributions need not commence until December 31 of the year the original participant would have attained age 72 (70½ if the original participant would have attained 70½ before 2020), if later.

If the original participant's designated beneficiary is not an individual or qualified trust as defined in the Treasury Regulations, the original retirement plan will be treated as having no designated beneficiaries for purposes of determining the distribution period. If there is no designated beneficiary of the original retirement plan, the entire inherited Roth IRA must be distributed by December 31 of the year containing the fifth anniversary of the original participant's death.

If you have inherited a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) governmental deferred compensation plan and have either elected or defaulted to payments under the five-year rule, you may change to a life expectancy payment election if, by December 31 of the year following the year of the original owner's death, you remove a life expectancy-based payment before rolling over the remaining assets to your inherited Roth IRA.

2. If you are the beneficiary of a deceased Roth IRA owner, the entire amount remaining in the inherited account will, at your election, either
  - (a) be distributed by December 31 of the year containing the fifth anniversary of the original Roth IRA owner's death, or
  - (b) be distributed over your remaining life expectancy.

If you are a spouse who is the sole designated beneficiary of a Roth IRA owner, you must elect either option (a) or (b) by the earlier of December 31 of the year containing the fifth anniversary of the original owner's death, or December 31 of the year life expectancy payments would be required to begin. If you are a designated beneficiary of the original Roth IRA owner, other than a spouse who is the sole designated beneficiary, you must elect either option (a) or (b) by December 31 of the year following the year of the original Roth IRA owner's death. If no election is made, the distribution will be calculated in accordance with option (b). In the case of distributions under option (b), distributions must commence by December 31 of the year following the year of the original Roth IRA owner's death. Generally, if the original Roth IRA owner's spouse is the designated beneficiary, distributions need not commence until December 31 of the year the original Roth IRA owner would have attained age 72 (70½ if the original Roth IRA owner would have attained 70½ before 2020), if later.

If the original Roth IRA owner's designated beneficiary is not an individual or qualified trust as defined in the Treasury Regulations, the original Roth IRA will be treated as having no designated beneficiaries for purposes of determining the distribution period. If there is no designated beneficiary of the original Roth IRA, the entire inherited Roth IRA must be distributed by December 31 of the year containing the fifth anniversary of the original Roth IRA owner's death.

3. If you have elected to take life expectancy payments and fail to request your required minimum distribution by December 31, we reserve the right to do any one of the following.
  - (a) Make no distribution until you give us a proper withdrawal request
  - (b) Distribute your entire inherited Roth IRA to you in a single sum payment
  - (c) Determine your required minimum distribution each year based on your life expectancy calculated using the Single Life Expectancy Table, and pay those distributions to you until you direct otherwise

#### **Death of Original Owner On or After January 1, 2020**

The entire amount remaining in your account will generally be distributed by December 31 of the year containing the tenth anniversary of the original owner's death unless you are an eligible designated beneficiary or the account has no designated beneficiary for purposes of determining a distribution period.

If you are an eligible designated beneficiary, the entire amount remaining in your account may be distributed (in accordance with the Treasury Regulations) over your remaining life expectancy (or over a period not extending beyond your life expectancy).

An eligible designated beneficiary is any designated beneficiary who is

- the original owner's surviving spouse,
- the original owner's child who has not reached the age of majority,
- disabled (A physician must determine that your impairment can be expected to result in death or to be of long, continued, and indefinite duration.),

- an individual who is not more than 10 years younger than the original owner, or
- chronically ill (A chronically ill individual is someone who (1) is unable to perform (without substantial assistance from another individual) at least two activities of daily living for an indefinite period due to a loss of functional capacity, (2) has a level of disability similar to the level of disability described above requiring assistance with daily living based on loss of functional capacity, or (3) requires substantial supervision to protect the individual from threats to health and safety due to severe cognitive impairment.)

Note that certain trust beneficiaries (e.g., certain trusts for disabled and chronically ill individuals) may take distribution of the entire amount remaining in the account over the remaining life expectancy of the trust beneficiary.

Generally, life expectancy distributions to an eligible designated beneficiary must commence by December 31 of the year following the year of the original owner's death. However, if the original owner's spouse is the eligible designated beneficiary, distributions need not commence until December 31 of the year the original owner would have attained age 72, if later. If the eligible designated beneficiary is the original owner's minor child, life expectancy payments must begin by December 31 of the year following the year of the original owner's death and continue until the child reaches the age of majority. Once the age of majority is reached, the beneficiary will have 10 years to deplete the account.

If a beneficiary other than a person (e.g., the original owner's estate, a charity, or a certain type of trust) is named, the original owner will be treated as having no designated beneficiary of the Roth IRA for purposes of determining the distribution period. If there is no designated beneficiary of the Roth IRA, the entire Roth IRA must be distributed by December 31 of the year containing the fifth anniversary of the original owner's death.

- I. **Waiver of 2020 RMD** – In spite of the general rules described above, you are not required to take a life expectancy payment from your inherited Roth IRA for calendar year 2020. In addition, if the five-year rule applies to your inherited Roth IRA, the five-year period is determined without regard to calendar year 2020. For example, if the original Roth IRA owner died in 2017, your five-year period will end in 2023 instead of 2022.

#### **INCOME TAX CONSEQUENCES OF ESTABLISHING AN INHERITED ROTH IRA**

- A. **Tax-Deferred Earnings** – The investment earnings of your inherited Roth IRA are not subject to federal income tax as they accumulate in your inherited Roth IRA. In addition, distributions of your inherited Roth IRA earnings will be free from federal income tax if you take a qualified distribution, as described below.
- B. **Taxation of Distributions** – The taxation of inherited Roth IRA distributions depends on whether the distribution is a qualified distribution or a nonqualified distribution.
  1. **Qualified Distribution.** A qualified distribution is a distribution that is made after the expiration of a five-year period. Qualified distributions from your inherited Roth IRA are not included in your income.
  2. **Nonqualified Distribution.** If you have not satisfied the five-year period for a qualified distribution, any earnings you withdraw from your inherited Roth IRA will be included in your gross income. When you take a distribution from the inherited Roth IRA, the amounts the original owner contributed to a Roth IRA, Roth 401(k), Roth 403(b), or governmental Roth 457(b) as Roth elective deferrals or Roth IRA contributions, will be deemed to be removed first, followed by conversion and employer-sponsored retirement plan rollover contributions the original owner made to a Roth IRA on a first-in, first-out basis. Therefore, your nonqualified distributions will not be taxable to you until your withdrawals exceed the amount of the regular contributions, conversion, and employer-sponsored retirement plan rollovers. These "ordering rules" are complex. If you have any questions regarding the taxation of distributions from your inherited Roth IRA, see a competent tax advisor.

- C. **Income Tax Withholding** – Any nonqualified withdrawal of earnings from your inherited Roth IRA may be subject to federal income tax withholding. You may, however, elect not to have withholding apply to your inherited Roth IRA withdrawal. If withholding is applied to your withdrawal, not less than 10 percent of the amount withdrawn must be withheld.
- D. **Early Distribution Penalty Tax** – No 10 percent early distribution penalty tax will apply to the inherited Roth IRA distribution because the distribution is due to the death of the original owner.
- E. **Rollovers and Transfers** – Your inherited Roth IRA may receive multiple rollover contributions from inherited qualified retirement plans, 403(a) annuity plans, 403(b) tax-sheltered annuity plans, or 457(b) governmental deferred compensation plans, or multiple transfers from inherited Roth IRAs. In order to combine these inherited retirement assets in the same inherited Roth IRA, you must have inherited the assets from the same owner and they must have been subject to the same beneficiary payment elections and calculation methods as under the receiving inherited Roth IRA. Rollover is a term used to describe a direct movement of cash or other property to your inherited Roth IRA from an eligible retirement plan that you have inherited as an eligible beneficiary. The rollover and transfer rules are generally summarized below. These transactions are often complex. If you have any questions regarding a rollover or transfer, please see a competent tax advisor.
1. **Roth IRA-to-Inherited Roth IRA Transfers.** Assets you have inherited from a deceased Roth IRA owner may be directly transferred to an inherited Roth IRA.
  2. **Rollovers from 401(k) or 403(b) Plans Containing Roth Elective Deferrals to an Inherited Roth IRA.** If you are a nonspouse beneficiary or the trustee of an eligible type of trust named as beneficiary of a deceased 401(k), 403(b), or governmental 457(b) plan participant who had made Roth elective deferrals to the plan, you may directly roll over the Roth elective deferrals, and their earnings, to an inherited Roth IRA, as permitted by the IRS. If you are a spouse beneficiary, you may either directly or indirectly roll over assets from an eligible inherited employer-sponsored retirement plan to an inherited Roth IRA. Regardless of the method of rollover, the Roth IRA must be maintained as an inherited Roth IRA, subject to the beneficiary distribution requirements. Roth elective deferrals may not be rolled over to an inherited Traditional IRA.
  3. **Rollovers from Eligible Retirement Plans Without Roth Elective Deferrals to an Inherited Roth IRA.** If you are a nonspouse beneficiary or the trustee of an eligible type of trust named as beneficiary of a deceased employer-sponsored retirement plan participant, you may directly roll over any inherited assets eligible for rollover from a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) governmental deferred compensation plan to an inherited Roth IRA, as permitted by the IRS. If you are a spouse beneficiary, you may either directly or indirectly roll over assets from an eligible inherited employer-sponsored retirement plan to an inherited Roth IRA, as permitted by the IRS. The amount of the rollover from the retirement plan will be treated as a distribution for income tax purposes, and is includible in your gross income (except for any after-tax contributions). Although the rollover amount generally is included in income, the 10 percent early distribution penalty tax will not apply to rollovers from an eligible retirement plan to an inherited Roth IRA.
  4. **Written Election.** At the time you make a rollover to an inherited Roth IRA, you must designate in writing to the trustee/custodian your election to treat that contribution as a rollover. Once made, the election is irrevocable.
- B. **Special Tax Treatment** – Capital gains treatment and 10-year income averaging authorized by IRC Sec. 402 do not apply to inherited Roth IRA distributions.
- C. **Prohibited Transactions** – If you or any successor beneficiary engage in a prohibited transaction with your inherited Roth IRA, as described in IRC Sec. 4975, your inherited Roth IRA will lose its tax-deferred or tax-exempt status, and you generally must include the value of the earnings in your account in your gross income for that taxable year. The following transactions are examples of prohibited transactions with your inherited Roth IRA. (1) Taking a loan from your inherited Roth IRA (2) Buying property for personal use (present or future) with inherited Roth IRA assets (3) Receiving certain bonuses or premiums because of your inherited Roth IRA.
- D. **Pledging** – If you pledge any portion of your inherited Roth IRA as collateral for a loan, the amount so pledged will be treated as a distribution and may be included in your gross income for that year.

## OTHER

- A. **IRS Plan Approval** – Articles I through VIII of the agreement used to establish this inherited Roth IRA have been approved by the IRS. The IRS approval is a determination only as to form. It is not an endorsement of the plan in operation or of the investments offered.
- B. **Additional Information** – For further information on Roth IRAs, you may wish to obtain IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*, or Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*, by calling 800-TAX-FORM, or by visiting [www.irs.gov](http://www.irs.gov) on the Internet.
- C. **Important Information About Procedures for Opening a New Account** – To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial organizations to obtain, verify, and record information that identifies each person who opens an account. Therefore, when you open an inherited Roth IRA, you are required to provide your name, residential address, date of birth, and identification number. We may require other information that will allow us to identify you.
- D. **Qualified Charitable Distributions** – If you are age 70½ or older, you may be eligible to take tax-free inherited Roth IRA distributions of up to \$100,000 per year and have these distributions paid directly to certain charitable organizations. Special tax rules may apply. For further detailed information you may obtain IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*, from the IRS or refer to the IRS website at [www.irs.gov](http://www.irs.gov).
- E. **Coronavirus-Related Distributions (CRDs)** – If you qualify, you may withdraw up to \$100,000 in aggregate from your IRAs and eligible retirement plans as a CRD, without paying the 10 percent early distribution penalty tax. You are a qualified individual if you (or your spouse or dependent) is diagnosed with the COVID-19 disease or the SARS-CoV-2 virus in an approved test; or if you have experienced adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reduced hours of a business owned or operated by you due to such virus or disease, or other factors as determined by the IRS. A CRD must be made on or after January 1, 2020, and before December 31, 2020.

CRDs will be taxed ratably over a three-year period, unless you elect otherwise. If you are a spouse beneficiary, you may repay these distributions over three years beginning with the day following the day a CRD is made. Repayments may be made to your eligible retirement plan or IRA.

An eligible retirement plan is defined as a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, 457(b) eligible governmental deferred compensation plan, or an IRA.

## LIMITATIONS AND RESTRICTIONS

- A. **Gift Tax** – Transfers of your inherited Roth IRA assets to a successor beneficiary made during your life and at your request may be subject to federal gift tax under IRC Sec. 2501.