2020-2021

Trust

Comprehensive Inherited Traditional IRA Amendment

TRUST—NONDEPOSIT INVESTMENTS NOT FDIC-INSURED. Under your Inherited Trust IRA, you may use your IRA funds to purchase mutual funds and other nondeposit investment products. Nondeposit investment products, such as mutual funds, stocks, bonds, etc., are not FDIC-insured; are not deposits or other obligations of this institution and are not guaranteed by this institution; and involve investment risks, including possible loss of principal.

Dear Inheriting IRA Beneficiary:

You have an inherited traditional IRA. Originally, this IRA had been established for an IRA accountholder who has died. You were designated as his or her beneficiary. We, as your IRA custodian, are updating or amending the IRA documents (IRS Form 5305, as modified, and the Disclosure Statement) previously furnished you.

We are furnishing you this Comprehensive Inherited Traditional IRA Amendment. The general rule is that the IRA plan agreement must authorize the transaction being made by an IRA grantor or an inheriting IRA beneficiary. The IRA Disclosure Statement has been revised to set forth the IRA rules applying for the 2020-2021 tax years.

On December 20, 2019, a new law was enacted which included a number of IRA law changes. The new law is the Further Consolidated Appropriations Act of 2020. Included in this law was the SECURE Act which contained the IRA changes.

Also, President Trump signed the "CARES Act", "Coronavirus Aid, Relief and Economic Security Act" on Friday, March 27, 2020. It sets forth additional law changes regarding required minimum distributions and certain disaster distributions.

The law requiring certain IRA grantors and beneficiaries to be distributed a required minimum distribution (RMD) for 2020 has been waived. No one is required to take an RMD for 2020. There will be RMDs for 2021 and subsequent years.

The new law requires that one set of rules apply to beneficiaries of IRA grantors who died before January 1, 2020 and another set of rules apply to beneficiaries of IRA grantors who die on or after January 1, 2020.

If you inherited your inherited IRA prior to January 1, 2020, then you are not affected by the new tax laws. You have been grandfathered and you may continue to stretch out distributions over your life expectancy. If you are not the first inheriting beneficiary, but you are successor beneficiary, then you may continue the initial beneficiary's RMD schedule. Upon your death your beneficiary must close the inherited IRA under the 10-year rule as long as your beneficiary is a person. The 5-year rule will apply if your beneficiary is not a person.

If you are the beneficiary of an IRA grantor who dies on or after January 1, 2020, then in general, you will have to close the inherited IRA within ten years. However, there are some beneficiaries who will still be entitled to stretch out distributions. The rules for spouse beneficiaries have not changed.

In general, certain beneficiaries are still entitled to stretch out their withdrawal of the inherited IRA funds over their life expectancy. These beneficiaries are called Eligible Designated Beneficiaries (EDB). To be an Eligible Designated Beneficiary the beneficiary must be disabled, chronically ill, not more than 10 years younger than the IRA accountholder, must be child who has not yet attained the age of majority, or must be a trust which has a beneficiary a person who is disabled or chronically ill. The 10 year rule will apply to a child once he or she attains the age of majority. Upon your death your beneficiary must close the inherited IRA under the 10-year rule as long as your beneficiary is a person. The 5-year rule will apply if your beneficiary is not a person.

In general, other non-EDB beneficiaries are no longer entitled to stretch out their withdrawal of the inherited IRA funds over their life expectancy. They must withdraw the inherited IRA funds within a 10 year time period commencing with the death of a IRA owner. Upon your death your beneficiary must finish your 10-year schedule.

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2020 is not to be considered in applying the 5-year rule for a beneficiary using the 5-year rule when the IRA accountholder had died before January 1, 2020.

Summary of other important Inherited IRA rules

1. **Since the late 1970's, federal tax law has expressly prohibited a non-spouse inheriting IRA beneficiary from rolling over a distribution from an inherited IRA. In 2018 an exception to this law was enacted. If the IRS levies the inherited IRA, but later returns the funds to the individual, the individual may rollover such funds and has until the tax filing deadline for the year the repayment occurred.**
2. **For the year of the IRA owner's passing you as the beneficiary must withdraw your share of the required distribution as calculated for the IRA owner to the extent not distributed.**
3. **You are in general required to withdraw required distributions based on your life expectancy commencing with the year after the original IRA owner passed. In some cases you may elect to use a 5 year rule and in other cases its use may be mandatory.**
4. **If you have not done so, you want to designate your beneficiary or beneficiaries with respect to this inherited IRA.**
5. **You cannot take a distribution from the inherited IRA and then roll it over into another inherited IRA or your own IRA. You are able to have your inherited IRA transferred from an existing IRA custodian/trustee to another IRA custodian/trustee. An inherited IRA transfer form should be used.**
6. **You can make a qualified charitable distribution (QCD) from this inherited IRA as long as you are age 70½ or older when the distribution occurs and you comply with the other standard QCD rules.**
7. **If you inherit 401(k) funds as a nonspouse beneficiary, you are eligible to have such funds directly rolled over from the 401(k) plan to an inherited IRA which you would establish. The rules do not allow you to take a distribution and then roll it over.**

There will be times when you will want to conduct additional research, and you will want to contact a tax professional for advice. You will find helpful information at the IRS website, www.irs.gov.

We suggest you keep this Comprehensive Inherited Traditional IRA Amendment in your personal files for safekeeping. The revised and updated Inherited Individual Retirement Account (IRA) and Disclosure Statement are both set forth in this Comprehensive Inherited Traditional IRA Amendment and they replace any previously furnished forms.

Sincerely,

Your IRA Trustee

Individual Retirement Inherited Trust Account

Special Note. **This is an inherited traditional IRA. An inherited IRA is different from a traditional IRA established for a grantor, in the following ways: (1) annual contributions are no longer permissible; (2) a nonspouse beneficiary does not have the right to roll over a distribution from this inherited IRA to his or her own IRA or to another inherited IRA; (3) special required distribution rules apply to this inherited IRA; and (4) an inheriting IRA beneficiary may not convert the traditional IRA to be a Roth IRA. Therefore, it is desirable to have an IRA plan agreement form which clearly states the special rules which apply to an inherited IRA. The IRS has not written such a special form. Set forth below is the IRS Model Form 5305 which is written primarily from the viewpoint that the depositor/accountholder will make additional contributions. Be aware that those provisions describing the rights of the grantor are no longer applicable, since the grantor has died. The Disclosure Statement has been written to discuss only those rules which apply to you as a beneficiary, and to your beneficiary(ies) after your death.**

FORM

This is Form 5305 as revised by the Department of Treasury, Internal Revenue Service in April of 2017. Do not file with the IRS. This IRA account is under section 408(a) of the Internal Revenue Code.

NOTICE OF AGREEMENT

Since your name appears on the application, you understand that you are establishing an Individual Retirement Account (IRA) (under section 408(a) of the Internal Revenue Code) to provide for your retirement and for the support of your beneficiaries after your death. The Trustee named on the application has given you the disclosure statement under the Income Tax Regulations under section 408(i) of the Code. You have deposited with the Trustee the sum indicated on the application in cash. You and the Trustee make the following agreement with the following terms:

ARTICLE I

Except in the case of a rollover contribution described in section 402(c), 403(a)(4), 403(b)(8), 408(d)(3), or 457(e)(16), an employer contribution to a simplified employee pension plan as described in section 408(k) or a recharacterized contribution described in section 408A(d)(6), the trustee will accept only cash contributions up to $5,500 per year for 2013 through 2017. For individuals who have reached the age of 50 by the end of the year, the contribution limit is increased to $6,500 per year for 2013 through 2017. For years after 2017, these limits will be increased to reflect a cost-of-living adjustment, if any.

ARTICLE II

The grantor's interest in the balance in the trust account is nonforfeitable.

ARTICLE III

1. No part of the trust account funds may be invested in life insurance contracts, nor may the assets of the trust account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).
2. No part of the trust account funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

ARTICLE IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the grantor's interest in the trust account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and the regulations thereunder, the provisions of which are herein incorporated by reference.
2. The grantor's entire interest in the trust account must be, or begin to be, distributed not later than the grantor's required beginning date, April 1 following

the calendar year in which the grantor reaches age 70½. By that date, the grantor may elect, in a manner acceptable to the trustee, to have the balance in the trust account distributed in:

(a) A single sum or

(b) Payments over a period not longer than the life of the grantor or the joint lives of the grantor and his or her designated beneficiary.

3. If the grantor dies before his or her entire interest is distributed to him or her, the remaining interest will be distributed as follows:

(a) If the grantor dies on or after the required beginning date and:

(i) the designated beneficiary is the grantor's surviving spouse, the remaining interest will be distributed over the surviving spouse's life expectancy, as determined each year until such spouse's death, or over the period in paragraph (a)(iii) below if longer. Any interest remaining after the spouse's death will be distributed over such spouse's remaining life expectancy as determined in the year of the spouse's death and reduced by 1 for each subsequent year, or, if distributions are being made over the period in paragraph (a)(iii) below, over such period.

(ii) the designated beneficiary is not the grantor's surviving spouse, the remaining interest will be distributed over the beneficiary's remaining life expectancy as determined in the year following the death of the grantor and reduced by 1 for each subsequent year, or over the period in paragraph (a)(iii) below if longer.

(iii) there is no designated beneficiary, the remaining interest will be distributed over the remaining life expectancy of the grantor as determined in the year of the grantor's death and reduced by 1 for each subsequent year.

(b) If the grantor dies before the required beginning date, the remaining interest will be distributed in accordance with (i) below or, if elected or there is no designated beneficiary, in accordance with (ii) below:

(i) The remaining interest will be distributed in accordance with paragraphs (a)(i) and (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), starting by the end of the calendar year following the year of the grantor's death. If, however, the designated beneficiary is the grantor's surviving spouse, then this distribution is not required to begin before the end of the calendar year in which the grantor would have reached age 70½. But, in such case, if the grantor's surviving spouse dies before distributions are required to begin, then the remaining interest will be distributed in accordance with (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), over such spouse's designated beneficiary's life expectancy, or in accordance with (ii) below if there is no such designated beneficiary.

(ii) The remaining interest will be distributed by the end of the calendar year containing the fifth anniversary of the grantor's death.

4. If the grantor dies before his or her entire interest has been distributed and if the designated beneficiary is not the grantor's surviving spouse, no additional contributions may be accepted in the account.

5. The minimum amount that must be distributed each year, beginning with the year containing the grantor's required beginning date, is known as the "required minimum distribution" and is determined as follows:

(a) The required minimum distribution under paragraph 2(b) for any year, beginning with the year the grantor reaches age 70½, is the grantor's account value at the close of business on December 31 of the preceding year divided by the distribution period in the uniform lifetime table in Regulations section 1.401(a)(9)-9. However, if the grantor's designated beneficiary is his or her surviving spouse, the required minimum distribution for a year shall not be more than the grantor's account value at the close of business on December 31 of the preceding year divided by the number in the joint and last survivor table in Regulations section

1.401(a)(9)-9. The required minimum distribution for a year under this paragraph (a) is determined using the grantor's (or, if applicable, the grantor and spouse's) attained age (or ages) in the year.

(b) The required minimum distribution under paragraphs 3(a) and 3(b)(i) for a year, beginning with the year following the year of the grantor's death (or the year the grantor would have reached age 70½, if applicable under paragraph 3(b)(i)) is the account value at the close of business on December 31 of the preceding year divided by the life expectancy (in the single life table in Regulations section 1.401(a)(9)-9) of the individual specified in such paragraphs 3(a) and 3(b)(i).

(c) The required minimum distribution for the year the grantor reaches age 70½ can be made as late as April 1 of the following year. The required minimum distribution for any other year must be made by the end of such year.

6. The owner of two or more traditional IRAs may satisfy the minimum distribution requirements described above by taking from one traditional IRA the amount required to satisfy the requirement for another in accordance with the regulations under section 408(a)(6).

ARTICLE V

1. The grantor agrees to provide the trustee with all information necessary to prepare any reports required by section 408(i) and Regulations sections 1.408-5 and 1.408-6.
2. The trustee agrees to submit to the Internal Revenue Service (IRS) and grantor the reports prescribed by the IRS.

ARTICLE VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles inconsistent with section 408(a) and the related regulations will be invalid.

ARTICLE VII

This agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the persons whose signatures appear below.

ARTICLE VIII

Article VIII may be used for any additional provisions. If other provisions are added, they must comply with applicable requirements of State law and the Internal Revenue Code.

Introduction

In this Article, the words "you" and "your" mean the person for whose benefit the Inherited IRA has been established. The words, "we," "us," and "our" mean the Custodian of your Inherited IRA. In addition to the provisions of Articles I-VII, you and we agree that your Inherited IRA will be governed by these terms.

1. Your Duties and Rights

1.1 Notice and Address Change. You and your beneficiaries must deliver or mail any required information to our office unless we ask that you send it elsewhere. Any notice or election is effective only upon actual receipt. You or your beneficiaries must notify us of any change in address.

1.2 Tax Consequences. Because Inherited IRAs are so influenced by tax laws, you expressly acknowledge that you should consult with your tax advisor before making almost any Inherited IRA transaction. You are responsible for the tax consequences of any distributions or transfers, as well as any prohibited transactions. You acknowledge that you have not relied upon us for any advice concerning such tax consequences.

1.3A Investments and Selection of Investments. You have the right to self-direct the assets of this inherited IRA. You, or your authorized investment manager, may direct us to invest your inherited IRA funds or some portion in any other assets as described in section 1.3B.

You agree to notify us in writing with sufficient direction so that we may properly execute the transaction. You also agree to comply with any other conditions or requests we may require for administrative reasons. You expressly agree that your Inherited IRA will be charged for all transaction costs and other fees related to any directed investments. Such costs and fees are in addition to any other fees we may charge under this agreement.

You may invest your Inherited IRA assets only in assets which are clearly permitted by the laws governing IRAs. Thus, you cannot direct that your IRA assets be invested in any investment so that a prohibited transaction occurs. And, although we may permit you to self-direct the investments, we reserve the right to refuse to follow any investment direction.

When you direct your investments, you assume full responsibility and we shall not be liable for any loss you suffer. We shall be able to rely fully on your directions without making any inquiry or investigation. We are granted the discretion to decline your investment direction for any reason. We shall have the right to request that you furnish us with a written attorney's opinion that the proposed transaction will not be a prohibited transaction.

You may also instruct us in writing to invest your inherited IRA into one or more of the savings or time deposit instruments which we are offering at that time. You expressly authorize this even though we are acting as the IRA custodian of your Inherited IRA. Our name is set forth on the Inherited IRA application. Such deposit account must bear a reasonable rate of interest as determined by the terms of the deposit instruments and the short and long term economic conditions. the terms of any such accounts are incorporated by reference into this agreement.

FDIC insurance will only apply to the portion of your Inherited IRA funds invested in our time and savings accounts or those of another insured institution, and then only to the extent provided under governing rules. Such insurance does not apply to Inherited IRA funds which you self-direct into other types of investments. Securities are not bank deposits or FDIC insured, are not obligations of or guaranteed by the Custodian, and involve risk to principal.

The FDIC has stated that funds within an Inherited IRA are insured separately from funds within your personal IRA. The reason – the funds are held in a different right and capacity.

1.3B Investments. We will invest the assets comprising this inherited IRA unless the application page indicates otherwise. We have the following powers, rights and duties regarding the investment of your traditional Inherited IRA assets.

a. You expressly authorize us to invest your Inherited IRA funds into one or more deposit accounts as being offered by our financial institution or any related affiliate.

   See the application page for our name. Such deposit accounts must bear a reasonable rate of interest as determined by the terms of the deposit instruments and the short and long term economic conditions. The terms of any such accounts are incorporated by reference into the agreement.

b. To hold any property in our name or that of our nominee or in any other form we consider desirable.

c. To invest in bonds, notes, debentures, mortgages, trust interests, investment stock, mutual funds, general and limited partnership interest, deposits which bear a reasonable interest rate in the trustee, or in such other property, real or personal, within the United States, as the trustee may deem advisable, or as directed by you.

d. To invest in common trust funds and common investment funds (within the meaning of Code section 408(a)(5)).

e. To hold in cash such portion of the Inherited IRA assets as shall be reasonable under the circumstances.

f. To exercise any powers and rights of any individual owner with respect to any property of the Inherited IRA including, but not limited to, conducting business or litigation, participating in a voting trust, merger, borrowing funds and to do all other acts in its judgment necessary or desirable for the investment of your Inherited IRA assets even though the specific power to do such acts is not listed.

g. To allow you (the IRA beneficiary) pursuant to written policy to direct the investment of your Inherited IRA assets. For purposes of this section, the term “you” includes any Investment Manager which you have named. When we permit you to direct the investment, we shall not be liable for any loss you suffer.

1.4 Withdrawals/Termination. You may withdraw any amount of money from your Inherited IRA at any time. You must, however, complete our distribution form and furnish us with the reason for your distribution. Unless you instruct us in writing otherwise, we must withhold income tax on any Inherited IRA distribution for federal and state income tax purposes, if applicable. The amount to be withheld would be the amount then required by the applicable tax laws. With any distribution, including transfers, you will be required to pay from your Inherited IRA funds, if applicable, the interest penalty for the early surrender of a time deposit(s) and/or any fees related to the distribution.

1.5 Special Distribution Rules to Ensure Compliance with Beneficiary RMD Rules. You are required to establish a periodic distribution schedule so that you are paid a distribution amount which equals or exceeds the required minimum distribution amount. We have forms available which can be used to establish this schedule. Alternatively, you may elect to use the alternative certification method. You must furnish us a written notice of your intent to use the alternative certification method. Upon your request we will furnish you a form which you can use to make this election.

Unless you instruct us otherwise in writing, you hereby authorize us to issue you a check from your Inherited IRA funds for the amount of your annual distribution as determined above, or deposit such amount into any non-IRA checking or savings account which you maintain with us. We shall have the authority but not the duty to distribute this annual distribution amount from your Inherited IRA. You are solely responsible to make sure that your required minimum distributions take place on a timely basis.

Note. The CARES Act waives all RMDs for 2020. RMD rules will again apply for 2021 and subsequent years.

1.6 Naming Beneficiaries and Method of Payment. You may name one or more beneficiaries to receive your Inherited IRA assets after your death. We require that you use our beneficiary form to designate your beneficiary or beneficiaries and that you sign this form and file it with us during your lifetime. You are deemed to have furnished us with your beneficiary designation if you furnished such a form to an entity with respect to which we are considered to be a successor custodian and we have such designation in our files. You may change your beneficiaries at any time, and the consent of a beneficiary is not required unless you reside in a state with community or marital property laws. When you sign a new beneficiary form, you revoke all prior beneficiary designations. If you do not name a beneficiary, or if none of the named beneficiaries are alive on the date of your death, your Inherited IRA assets will be paid to your estate. As the beneficial owner of the Inherited IRA assets, you can instruct how and when these assets will be paid to the beneficiaries. If you don't instruct, your beneficiaries will have the right to choose how and when the assets will be paid. Any method of payment must satisfy the provisions of Article IV and other governing law.

Should any beneficiary pre-decease you, his or her share of the IRA is distributed pursuant to the selection you made on the account application in the Designation of Beneficiary section. The first choice, the pro rata method, terminates the interest of the deceased beneficiary and distributes those funds pro rata according to the remaining beneficiary’s share percentage(s). The second choice (a per stirpes method) transfers the deceased beneficiary’s share equally to the next generation of his or her living issue. Living issue is defined first as children, then grandchildren, then great-grandchildren (natural and/or adopted). If the predeceased primary beneficiary does not have any living issue, then his or her share shall be transferred to the other primary beneficiary(ies) on a pro rata basis based on their respective percentage shares unless you indicate on the IRA application that the share of the predeceased primary beneficiary is to go to his or her surviving spouse, if any.

In order that your funds be distributed according to your wishes, we strongly rec-

ommend you complete a new beneficiary designation as soon as possible when a beneficiary dies before you.

After your death, each primary beneficiary who acquires an interest in your Inherited IRA shall have the right to designate his or her own beneficiary(ies) with respect to his or her share. The procedures for designating a beneficiary(ies) which apply to you as the accountholder shall also apply to your beneficiary. When a beneficiary signs a new or revised beneficiary designation form, your beneficiary revokes all of his or her prior beneficiary designations. If the beneficiary does not designate his other beneficiary(ies), or if a designated beneficiary is not alive when the beneficiary dies, then the remaining Inherited IRA assets will be paid to such beneficiary's estate. Any method of payment must satisfy the provisions of Article IV and other governing law.

1.7 Special Distribution Rules to Ensure Compliance with Required Minimum Distribution Rules by Beneficiaries and Special Provisions for an Inherited IRA(s). You agree to inform any person who is your beneficiary that he or she is your beneficiary, and he or she must inform us of your death. We have the right to require that your beneficiary(ies) furnish us with a certified copy of your death certificate or other documentation, as we feel appropriate, to verify your death.

An inheriting beneficiary is subject to these terms of your Inherited IRA. Your beneficiary is required to complete such forms and furnish such information as we deem appropriate in order to handle a distribution request, including a transfer distribution.

After your death, there are rules which mandate that your Inherited IRA funds be distributed to your beneficiary(ies) on or before certain time deadlines. The RMD schedule applying to you will apply to your inheriting beneficiary(ies).

If a time deadline is not met and the applicable required distribution is not withdrawn, an inheriting beneficiary will owe the 50% excise tax. The rules and time deadlines which apply depend upon whether the IRA owner died on or before December 31, 2019 or whether he or she died after December 31, 2019 and whether or not you as the beneficiary are an eligible designated beneficiary as defined in the SECURE Act or you are not an eligible designated beneficiary. These rules and deadlines are discussed in the IRA Disclosure Statement. You acknowledge that these rules are complex and that you should discuss with your own advisers.

Upon your death, your Inherited IRA will be converted into one or more inherited IRAs. The number of inherited IRAs to be created depends upon the number of your primary beneficiaries alive as of the date of your death. There will be an inherited IRA created for each such beneficiary. The following rules will govern such inherited IRAs. These rules are in addition to the other rules of this agreement and will govern if there is a conflict.

You agree that we have the right to establish an inherited IRA account for each beneficiary on our data processing system, even before a beneficiary instructs us how he or she will take withdrawals. We will have the authority to move the funds from your Inherited IRA to one or more new inherited IRA accounts. We will have the right, if necessary, because of data processing or administrative requirements, to surrender the savings and time deposits which comprised your account and establish new ones for the inherited IRAs.

There will be earnings (or losses) from the time of your death until the time the separate Inherited IRAs are set-up. Such earnings (or losses) will be allocated on a pro rata basis in a reasonable and consistent manner. An inheriting beneficiary is only entitled to receive a distribution with respect to his or her Inherited IRA.

There may be times when your estate will be the beneficiary of your Inherited IRA upon your death and your personal representative will request that separate Inherited IRAs be established for the beneficiary(ies) of your estate. We will have the discretion whether or not we will do so. We may ask that the estate's attorney furnish us a legal opinion that under federal and state law it is permissible for the estate to pass-through to its beneficiary(ies) the estate's right to withdraw the Inherited IRA funds using a divisor as based on the deceased IRA grantor. You agree that we and/or any affiliate may serve concurrently as the personal representative of your estate and also as the IRA trustee.

There may be times when your trust will be the beneficiary of your Inherited IRA upon your death and your trustee(s) may request that separate inherited IRAs be established for the beneficiary(ies) of your trust. We will have the discretion whether or not we will do so. We may ask that the attorney for the trust furnish us a legal opinion that under federal and state law it is permissible for the trust to pass-through to its beneficiary(ies) the trust's right to withdraw the Inherited IRA funds using a divisor based on the life expectancy of the oldest trust beneficiary from an Inherited IRA as established for a trust beneficiary. You agree that we and/or any affiliate may serve concurrently as the trustee of the trust and also as the IRA trustee.

We will transfer an inherited IRA to another Inherited IRA custodian or trustee, but only if the requesting beneficiary and the receiving Inherited IRA custodian/trustee will furnish us with a special "transfer of inherited IRA" administrative form so it is clearly acknowledged that it is an "inherited IRA" which is being transferred. Inherited IRAs are not eligible to be rolled over unless the beneficiary is a spouse who is the sole beneficiary.

Each beneficiary will be required to instruct us in writing as to how he or she will withdraw funds from his or her inherited IRA so that the required minimum distributions rules will be satisfied.

A beneficiary who wishes to disclaim his or her interest must do so within nine months of your death or by the attaining the age of 21, if later, and must comply with the requirements of Code section 2518 and applicable state law. Your beneficiary will be required to furnish us a written disclaimer as prepared by his or her attorney.

We have forms available which can be used by your beneficiary to instruct us which option he or she elects, and to establish a distribution schedule. Alternatively, the beneficiary may elect to use the alternative certification method. The beneficiary must furnish us a written notice of his or her intent to use the alternative certification method. We will furnish the beneficiary a form which can be used to make this election, upon his or her request.

We shall have the authority but not the duty to distribute any required minimum distribution to your beneficiary(ies). Any beneficiary shall be solely responsible to make sure that the required minimum distributions take place on a timely basis.

If your beneficiary fails to furnish us with his or her instruction as to how he or she will comply with the required distribution rules which apply to the situation, if applicable, then you hereby authorize us to mail a check to the beneficiary or to set-up a non-IRA savings account for such beneficiary and to deposit such funds into such account. We shall have the authority to make such a distribution by November 15 of the applicable year, but not the duty. Any beneficiary shall be solely responsible to make sure that required distributions take place on a timely basis so the 50% excise tax of Code section 4974(a) will not apply. A nonspouse beneficiary must remember that he or she has no rollover rights with respect to a distribution from an inherited IRA unless the exception enacted in 2018 for the return of an IRS levy would apply.

1.8 Assignment Rights. You, your beneficiaries, or anyone else may not borrow from your Inherited IRA, or pledge any portion of it as security or otherwise assign or create a lien on any part of your Inherited IRA account.

1.9 Indemnification. You hereby agree to release us from any and all liability with respect to your Inherited IRA except if such liability arises from our intentional misconduct or gross negligence.

1.10 Sale of Custodian-Successor Custodian. If another institution should purchase this, the custodian institution, or any of our Inherited IRA deposits, or we elect to change our corporate structure via a merger, consolidation or name change, then you hereby consent that the purchasing entity or the resulting corporate entity will be the successor custodian of your Inherited IRA funds with all duties and rights as listed in section 2.

1.11 General Rule–No FDIC Insurance Coverage. Normally FDIC insurance does NOT apply to assets held within an Inherited trust IRA because FDIC insurance applies only to certain deposit accounts. Your Inherited IRA has primarily been invested or will be invested in investments other than such deposit accounts and therefore will NOT be insured by the FDIC.

Stated another way, under your Inherited trust IRA, your Inherited IRA funds may be used to purchase mutual funds and other nondeposit investment products. The nondeposit investment products are not FDIC insured; are not deposits or other obligations of this institution and are not guaranteed by this institution; and involve investment risks, including loss or principal.

In some instances a portion of your Inherited IRA funds will be invested in deposits at this institution or another institution which is an "insured" institution. In such case, such deposits would be insured pursuant to the rules as established by the FDIC. A summary follows. Such Inherited IRA deposits are insured on a per institution basis and are insured separately from other deposit accounts, pursuant to the Federal Deposit Insurance Act, up to $250,000. Any IRA, Roth IRA, most eligible deferred compensation plans described in section 457 of the Internal Code, a Keogh plan as described in Code section 401(d) and any individual account plan as defined in section 3(34) of ERISA shall be aggregated and insured in an amount not to exceed $250,000. This aggregation requirement applies to a Keogh plan or an individual account plan only when you have the right to direct the investment of your account. Amounts in excess of $250,000 are not insured.

The FDIC has stated that funds within an Inherited IRA are insured separately from funds within your personal IRA. The reason – the funds are held in a different right and capacity.

1.12 Special Agreement Regarding Prohibited Transactions. You acknowledge that the prohibited transaction rules set forth in Code section 4975 are complex and can result in harsh tax consequences. Generally, if you or your beneficiary engages in a prohibited transaction in connection with your Inherited IRA account at any time during the year, the account stops being an Inherited IRA as of the first day of that year. Therefore, you expressly agree that you will consult with your attorney or tax advisor prior to any proposed transaction which might be a prohibited transaction. You shall furnish us with an attorney's written opinion that a prohibited transaction will not occur on account of the proposed transaction. You agree to hold us harmless for any prohibited transaction which occurs unless we would be principally at fault.

Generally, a prohibited transaction is any improper use of your traditional IRA account or annuity by you, your beneficiary, or any disqualified person.

Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant).

The following are examples of prohibited IRA transactions.

- Borrowing money from it.
- Selling property to it.
- Receiving unreasonable compensation for managing it.
- Using it as security for a loan.
- Buying property for personal use (present or future) with IRA funds.

1.13 Fiduciary. For these purposes, a fiduciary includes anyone who does any of the following.

- Exercises any discretionary authority or discretionary control in managing your IRA or exercises any authority or control in managing or disposing of its assets.
- Provides investment advice to your IRA for a fee, or has any authority or responsibility to do so.
- Has any discretionary authority or discretionary responsibility in administering your IRA.

Current law provides for a 5-part test to determine if a person is a fiduciary. Under this rule a person is a fiduciary only if he or she:

1) makes recommendation on investing in, purchasing or selling securities or other property; or gives advice as to their value; 2) on a regular basis; 3) pursuant to a mutual understanding that the advice; 4) will serve as a primary basis for investment decisions; and 5) will be individualized to the particular needs of the IRA or plan.

A person who does not meet all five conditions is not a fiduciary.

1.13A Withholding of State Income Tax. If you are a resident of a state which has income tax laws, then we will withhold income tax for such state if we are required by law to do so or if we choose to do so. In general, we will withhold income tax for a state only if we have the minimal contacts with such state so we are required to do so.

1.14 Express Duty to Notify Us When You Become an Expatriate. You acknowledge that you have the express duty to notify us (your IRA custodian/trustee) of your expatriation date when you become an expatriate or covered expatriate. In general, an expatriate is either a United States citizen who has relinquished his or her citizenship or is a long term resident who ceases residence in the United States.

You agree to complete such administrative forms as we believe necessary. In our sole discretion, we will have the right to deduct and pay from your IRA assets any amount which reasonably might be owed to the United States Treasury regarding your expatriation. Refer to section 4.5.K for a summary.

1.15 Power of Attorney. You may designate in writing one or more individuals to act as your power of attorney with respect to your Inherited IRA. He or she will have the full authority to make contributions, take distributions and take other actions with respect to your Inherited IRA on your behalf. There is one exception. He or she will not have the authority to name himself or herself as a beneficiary unless the power of attorney expressly grants this authority. You agree that this power of attorney continues in full force and effect even if you become incapacitated or unable to conduct your own affairs. You agree to assume all liability and responsibility for the acts of your power of attorney or for his or her failure to act. We shall have no liability for any loss of any kind incurred as a result of actions taken by your power of attorney. We shall have no duty or obligation to question any direction or instruction given by your power of attorney, including taking a distribution closing your Inherited IRA. This written power of attorney shall be furnished to us while you are alive. We must find it acceptable. We may rely on your power of attorney designation until we have been notified in writing that you have either revoked or changed such power of attorney. If we have a valid tax or business reason, we may decline to follow a direction or instruction as given by your power of attorney. The power of attorney designation is revoked by your death. The power of attorney no longer has any power to act with respect to your Inherited IRA once you die. You agree to inform your power of attorney that he or she has the duty to inform us in writing of your death, if he or she has knowledge of your death. We are not liable for the acts of your power of attorney after your death unless we have received written notification of your death.

1.16 Required Information to Open this Inherited IRA. When opening an Inherited IRA or any other banking account, you are required to provide your name, address of residence, date of birth, and your social security number or other tax identification number. We may ask for additional information to allow us to verify your identity. These requirements are designed to allow a financial institution to participate in the public policy goal of allowing the government to effectively fight the funding of terrorism and money laundering activities.

1.17 Effective Date. The effective date of this Inherited IRA plan agreement is the date that the Inherited IRA trustee signs or accepts the Inherited IRA application of the beneficiary.

1.18 Counterparts. The Inherited IRA application may be signed in any number of copies, each one shall be deemed to be an original even though the other copies are not available.

2. Our Duties and Rights

2.1 Reports. Each year we will provide you or your beneficiary with one or more reports showing the activity in your Inherited IRA for the preceding year as required by IRS regulations. You agree that we may furnish these reports by either providing a print version or an electronic version of the reports.

2.2 Reporting Errors. You or your beneficiary must carefully review each report for any errors. You are to notify us immediately if there are any errors. If you do not tell us of any errors within 90 days after the date we mailed the report, we are relieved of any responsibility for the error.

2.3 Agents. We may use agents to assist us in fulfilling our duties under this agreement.

2.4 Contribution Limitations. Since this is an Inherited IRA, the only permissible contribution is a transfer contribution. No other contributions are permitted.

2.5 Fees. You agree to pay us the fees specified in our current schedule of fees, if any, for establishing, maintaining and administering your Inherited IRA. We may replace or change our fee schedule at any time, upon giving you 30-days' written notice. You hereby authorize us to deduct these fees from your Inherited IRA assets and to surrender or sell such Inherited IRA assets at our discretion to pay any fee of which you have been notified, and which remains unpaid 30 days thereafter. However, in the case of an administrative fee, we will allow you to pay such fee with non-IRA funds, but we have no duty to inform you of this option other than herein.

If your Inherited IRA is escheated to a state we will have the discretion to charge a $50 fee. In addition, we will have the discretion to charge a $50 fee if we use the IRS missing person programs or similar programs to find you or your beneficiary or to try to find you or a beneficiary. If state law does not permit such fee or fees, then these fees shall not apply. You expressly authorize us to use the IRS' program if we have not had contact with you for a period of 12 months.

2.6 Termination and Resignation as Trustee. We may resign or terminate our position as trustee of your Inherited IRA at any time by giving you written notice. You may then instruct us in writing to transfer your IRA assets to another IRA trustee if done within 30 days of our written notice. If you fail to so instruct us in writing within 30 days of our written notice, the Inherited IRA assets will be paid to you by mailing a check to you or by depositing such funds into a non-IRA checking account or savings account which you maintain with us. In addition, if you do not maintain such a non-IRA checking or savings account, then you hereby grant us the authority to establish a non-IRA savings account to receive this transfer.

2.7 Amendments. We may amend this agreement at any time in order to meet the requirements of the tax laws or regulations. We will send you a copy of any such amendment. You also agree that we may amend any provision of Article VIII and it will become effective 30 days after it is mailed to you or your beneficiary.

2.8 Good Faith Payments. We are not liable for any payments we make in good faith. We can rely fully on any information or direction you give us or on any document which we believe sufficient to determine a person's identity. We can rely on the latest beneficiary form in our possession. We may presume that a beneficiary is fully competent until we are told otherwise. If a beneficiary is a minor or is incompetent, we may make payments to the beneficiary's legal representative, or to the person with whom the beneficiary resides or to the beneficiary directly, notwithstanding state law to the contrary.

2.9 Withholding Payments and Resolution of Disputes. We shall have the right to withhold payments from your Inherited IRA assets if there is any dispute or uncertainty with respect to these assets. For example, disputes could arise in a divorce situation, or different individuals could claim that they were entitled to be paid as your beneficiaries. This right of ours to withhold payment is expressly authorized until the dispute or uncertainty is settled to our satisfaction by all of the parties. We shall have the right (but not the duty) to request a judicial determination as to ownership of the assets at any time from a Court of law. The Court's determination shall be binding upon us, you and all persons claiming an interest in the assets. You expressly authorize and agree that we have the right to be paid (i.e. deduct) from your Inherited IRA assets any fees and expenses including but not limited to legal and accounting fees, whether internal or external, associated with resolving any dispute.

2.9A Legal Claims Against Your Inherited IRA. We will attempt to notify you if we are served with any type of legal process which affects or might affect your Inherited IRA. The provisions of section 2.9 will apply to this situation except rather than request a judicial determination as to the ownership of the assets there would be a request to determine the validity of the legal process against your Inherited IRA assets. Your Inherited IRA will be responsible for all fees and expenses associated with responding to the legal process claim.

2.10 Notices. We may give a notice or report to you or your beneficiary by mailing it to you or your beneficiary at the address last furnished to us. The notice or report is considered given when it is mailed by either an agent or us.

2.11 Transfers. We may request certification acceptable to us before we will accept any transfer contribution. We reserve total discretion whether or not we will transfer your Inherited IRA assets to another custodian or trustee. You assume sole responsibility for complying with this requirement.

2.12 Authority to Deduct Taxes. In our sole discretion, you authorize us to deduct and pay from your Inherited IRA assets the amount necessary to pay any and all taxes which relate to this Inherited IRA for which it may be liable.

2.13 Investments. We will invest the assets comprising this traditional IRA unless the application page indicates otherwise. We have the following powers, rights and duties regarding the investment of your traditional IRA assets.

a. You expressly authorize us to invest your Inherited IRA funds into one or more deposit accounts as being offered by our financial institution or any related affiliate.

   See the application page for our name. Such deposit accounts must bear a reasonable rate of interest as determined by the terms of the deposit instruments and the short and long term economic conditions. The terms of any such accounts are incorporated by reference into the agreement.

b. To hold any property in our name or that of our nominee or in any other form we consider desirable.

c. To invest in bonds, notes, debentures, mortgages, trust interests, investment stock, mutual funds, general and limited partnership interest, deposits which bear a reasonable interest rate in the trustee, or in such other property, real or personal, within the United States, as the trustee may deem advisable, or as directed by you.

d. To invest in common trust funds and common investment funds (within the meaning of Code section 408(a)(5)).

e. To hold in cash such portion of the Inherited IRA assets as shall be reasonable under the circumstances.

f. To exercise any powers and rights of any individual owner with respect to any property of the Inherited IRA including, but not limited to, conducting business or litigation, participating in a voting trust, merger, borrowing funds and to do all other acts in its judgment necessary or desirable for the investment of your Inherited IRA assets even though the specific power to do such acts is not listed.

g. To allow you (the IRA accountholder) pursuant to written policy to direct the investment of your IRA assets. For purposes of this section, the term “you” includes any Investment Manager which you have named. When we permit you to direct the investment, we shall not be liable for any loss you suffer.

2.14 Corrections of Errors. We shall have the right to correct any error we make with respect to your Inherited IRA unless IRS rules and procedures would not permit us to do so. Such errors include both reporting errors and non-reporting errors.

3. General Provisions

3.1 Entire Agreement/Reproductions. This agreement is made up of two documents: (1) the application form and (2) the IRS model Form 5305-A plan agreement along with Article VIII. You and we have received or retained a copy of these documents. You also acknowledge the fact that we have given you an Inherited IRA disclosure statement. A copy of these documents shall be admissible in evidence in any judicial or administrative proceeding as if they were originals. This agreement contains the entire agreement of the parties. It may not be changed orally; you and we must agree to any changes according to the procedure set forth in section 2.7.

3.2 Controlling Law. The laws of the state in which our principal office is located will govern this agreement for purposes of the relationship between us (i.e. the traditional Inherited IRA custodian and the traditional Inherited IRA accounthold-

er or the inheriting beneficiary). However, if controlling law must be determined for another reason, then the laws of the state of the accountholder's domicile shall govern this agreement.

3.3 Waiver of a Breach and Severability. Your waiver or our waiver of a breach of any provision of this agreement by the other party shall not operate or be construed as a waiver of any subsequent breach. If any provision of this agreement is held to be illegal or nonenforceable, the remaining provisions shall be construed as if that provision had not been included.

3.4 Special Plan Agreement Changes Authorizing Tax-Free Charitable Distributions. To the extent necessary, the previous provisions are modified to authorize the special IRA tax benefits for tax years 2006 to 2015 relating to tax-free charitable distributions. These changes are discussed in the Disclosure Statement.

3.5 Special Plan Agreement Changes Authorizing a New Type of Inherited IRA as Set Forth in the Pension Protection Act of 2006. To the extent necessary, the previous provisions are modified to authorize the special IRA tax benefits relating to the new type of inherited IRA arising from direct rollovers of the accounts of nonspouse beneficiaries. These changes are discussed in the Disclosure Statement.

3.6 Special Plan Agreement Changes Authorizing IRA Funds to be Transferred Tax-Free to Health Savings Accounts. On or after January 1, 2007, a person who is eligible to make an HSA contribution, who has funds within a traditional IRA (and in limited cases a Roth IRA) may make a special election once during their lifetime to transfer a certain amount from their traditional IRA to their HSA. This type of special transfer is called a qualified HSA funding distribution. Such an election, once made, is irrevocable. The amount transferred in such a direct trustee-to-trustee transfer will be excluded from your income.

3.7 Special Plan Agreement Changes for Laws Enacted in 2017 Relating to Certain 2016/2017 Hurricanes And other Federally Declared Disasters. To the extent necessary, the previous provisions are modified to authorize the special IRA tax benefits made by the Tax Cuts Act and the Disaster Tax Relief and Airport and Airway Extention Act of 2017. These changes are discussed under section 4.5.I of the Disclosure Statement. One of the primary changes is, a qualified individual is authorized to roll over a qualified hurricane disaster distribution within a 3-year time period rather than the standard 60 days as set forth in the Internal Revenue Code sections referenced in Article I.

3.8 Special Plan Agreement Changes for IRA Laws Enacted By The Tax Cuts and Jobs Act As Signed Into Law By President Trump on December 22, 2017. To the extent necessary, the previous provisions are modified effective for tax years commencing after December 31, 2017. A person who makes a Roth IRA conversion in 2018 or subsequent years is unable to recharacterize it. And there is a new rollover rule for certain plan loan offset amounts. These changes are discussed in the IRA Disclosure Statement.

3.9 Special IRA Plan Agreement Changes for IRA Law Changes Enacted by the SECURE Act as incorporated into the Further Consolidated Appropriations Act of 2020 as signed into law by President Trump on December 20, 2019. To the extent necessary the preceding IRA plan agreement provisions are modified to adopt the IRA changes authorized by the Further Consolidated Appropriations Act of 2020. In general, these changes apply for tax year commencing after December 31, 2019. The following changes (and also others) are discussed in the IRA Disclosure Statement. In general, if you are a beneficiary of an IRA accountholder who died before January 1, 2020, the RMD beneficiary rules applying to you (and your subsequent beneficiary) have not changed. You are to continue use the life distribution rule, if applicable or your must use the 5-year rule, if applicable. The new 10-year time period does not apply to you. In general, with respect to an IRA accountholder dying on or after January 1, 2020, a nonspouse beneficiary who is more than 10 years younger than the IRA owner will have 10 years in which to close the inherited IRA. The rules for spouse beneficiaries have not changed.

3.10 Special IRA Plan Agreement Changes for IRA Law Changes as Enacted within the "CARES Act". "Coronavirus Aid, Relief and Economic

Security Act" on Friday, March 27, 2020. To the extent necessary the preceding IRA plan agreement provisions are modified to adopt the IRA changes authorized by the CARES Act, In general. these changes apply for the tax year commencing after December 31, 2019. The following changes are discussed in the IRA Disclosure Statement. RMDs for 2020 are waived for both living IRA accountholders and beneficiaries. 2020 is not to be considered in applying the 5-year rule for a beneficiary using the 5-year rule when the IRA accountholder had died before January 1, 2020. Special tax relief was also enacted within the CARES Act related to the qualified disaster related to Coronavirus (COVID-19) for the time period commencing on or after January 1, 2020, and before December 31, 2020.

Disclosure Statement

Introduction

This Inherited IRA Disclosure Statement is an explanation of the rules which govern the traditional IRA, because that is the type of IRA which you have inherited.

You have not established an inherited Roth IRA, SIMPLE-IRA or a Coverdell Education Savings Account.

This summary or explanation of the inherited traditional IRA is intended to be a nontechnical explanation. However, as with any plan or program created by the Internal Revenue Code, these rules are complicated. Note that this is a summary, and you may well wish to conduct additional research. You are advised to always seek professional tax advice.

Revocation Procedure

You are entitled to revoke or cancel your Inherited IRA for any reason within seven (7) calendar days of the day you established it. You revoke your Inherited IRA by mailing or delivering a written notice to the Custodian's representative as shown on the application page. If you mail your notice, it is deemed mailed on the postmark date if you deposited it, properly addressed, in the United States mail with first class postage. Your timely revocation within the first seven days will mean your original contribution will be returned to you without any adjustment.

Statutory Requirements of an Inherited IRA

1. Cash Contributions. A beneficiary is not permitted to make any additional contributions to this inherited IRA.

2. Custodian/Trustee Requirements. The custodian or trustee of your traditional Inherited IRA must be a bank, trust company, savings and loan association, a federally insured credit union, or other person approved by the Secretary of the Treasury.

3. No Life Insurance. Funds in your Inherited IRA cannot be invested in life insurance to any extent.

4. Nonforfeitable. Your Inherited IRA funds are nonforfeitable.

5. Segregated Funds. Your Inherited IRA funds must be kept separate from other property, although these assets may be combined with other property in a common Inherited IRA trust fund.

6. General Discussion of an Inherited IRA.

When an IRA accountholder dies, who inherits these funds? The beneficiary of the IRA, as named by the accountholder on the IRA plan application document or most recent IRA beneficiary document, inherits the IRA funds. If no beneficiaries are named, applicable state law rules, usually naming the estate of the IRA accountholder as the beneficiary.

Can the now-deceased accountholder dictate how the money is to be distributed after his or her death? Yes! If the distribution instructions are in writing and call for an amount to be distributed, (not less than the amount required by the federal tax laws), the deceased accountholder has the right to dictate the manner of distributions. Most accountholders allow the beneficiary to decide when he or she will take the required distributions.

Do the federal income tax laws mandate that I, as an IRA beneficiary, must be distributed funds from the decedent's IRA? Yes. If certain minimum amounts are not distributed to you, then you will owe a 50% excise tax. This tax amount is calculated as follows: 50% times the amount required to be withdrawn but which was not withdrawn. This is determined annually.

As a beneficiary, may I transfer my inherited IRA funds to a different IRA custodian/trustee? Yes. If certain information is furnished and acknowledged by both IRA custodians, then you should be able to transfer the IRA you have inherited to a different IRA custodian.

Am I eligible to roll over inherited traditional IRA funds to another traditional IRA? No. Inherited IRAs are not eligible to be rolled over unless you are a spouse beneficiary.

Am I eligible to roll over or convert inherited traditional IRA funds to a Roth IRA? No. Inherited traditional IRA funds are not eligible to be converted into a Roth IRA.

What are the beneficiary options upon the death of the IRA accountholder? If the IRA accountholder has not specified the distribution method, the beneficiary options are numerous, and vary depending on whether it is a traditional IRA or a Roth IRA, and are further differentiated by whether the IRA accountholder dies before or after the Required Beginning Date. Also, spouse beneficiary options differ from nonspouse beneficiary options.

What date is used to determine a beneficiary(ies') RMD? In order to be an inheriting IRA beneficiary for RMD purposes, you must have been a designated beneficiary as of the time of the accountholder's death, and also as of September 30 of the year after the year the accountholder died.

What if more than one beneficiary is named? The IRA will generally be divided into separate inherited beneficiary accounts, with each account under the control of the individual beneficiary. Each beneficiary can generally make their own choice of payout options unless the decedent mandated the form and timing of payment.

What must I do to begin distributions? Bring a certified copy of the deceased's death certificate to the financial institution. They will give you the forms to complete to choose your election and payment schedule.

Understanding the Tax Consequences of Distributions from an Inherited IRA

You are required to be distributed certain amounts determined under either the life-distribution rule or the 5-year rule.

When funds are withdrawn or distributed from this inherited IRA, you will generally include the full amount in your gross income for federal income tax purposes. The amount of tax you will need to pay because of an IRA distribution will be added to your other income, and you will pay tax at whatever your marginal income tax bracket would require. If your spouse had a nontaxable amount within his or her IRA because he or she had made non-deductible contributions to the traditional IRA, or had rolled over non-deductible contributions from a 401(k) plan or other pension plan, then a portion of that distribution will not be taxed. This subject of non-deductible contributions or basis is beyond the scope of this brochure. You will want to consult with your tax advisor and also perform your own research.

What RMD schedule or rules apply once the original inheriting IRA beneficiary dies? The RMD schedule applying to the initial inheriting IRA beneficiary will apply to his or her beneficiary(ies) and all other subsequent beneficiaries. That is, the RMD schedule does not change even though the initial inheriting beneficiary dies. Such inheriting beneficiaries have the right to take distributions larger than the required minimum.

What if I want to take a lump-sum distribution from the IRA? You may take a lump-sum distribution. A beneficiary generally has the right to take more than his or her required distribution.

Can I designate my own beneficiary(ies)? Yes. The governing rules have been changed to allow you, as an inheriting beneficiary, to designate your own beneficiary(ies).

What are the tax consequences of my being a beneficiary to a traditional IRA? No taxes will be owed until the money is actually distributed to you. If the accountholder received a deduction when the contributions were made, or the funds came from a pension plan that was funded with pre-tax dollars, then the entire distribution will be taxable to you. If the IRA was funded with after-tax dollars, then only the interest, or funds that have never been taxed, will be taxed when withdrawn.

How do I determine whether or not the IRA was funded with pre-tax dollars? This information can be found on the deceased accountholder's tax forms. If there are after-tax dollars in the IRA, then a tax Form 8606 will tell what portion of the IRA is taxable and what is not.

At what tax rate will the IRA distribution be taxed? The tax rate for the distribution is determined by the taxable income of the recipient.

What tax benefit do I realize by leaving the funds within the inherited traditional IRA? Taxation of the earnings is deferred until actually distributed, as is taxation of the original contributions.

When must my beneficiary(ies) be paid a required distribution? If an RMD had been calculated for you for the year you die, then your beneficiary(ies) will need to be paid an RMD by December of 31 of such year to the extent it had not been paid to your prior to your death. An RMD is calculated for the year you attain age 70½ or would have attained age 70½ since for RMD purposes it is assumed you lived the entire year.

The RMD due for the years after the year of your death depend upon the RMD rules as discussed below. In general, your beneficiary(ies) must take an RMD by December 31 of every year after the year of your death. There are some exceptions as discussed later.

What is the tax consequence for my beneficiary if he or she fails to take an RMD by December 31? He or she will owe the 50% tax. For example, if the RMD is $600, then the penalty tax amount owed is $300. The IRS does have the authority to waive this tax if special circumstances explain why a beneficiary missed taking his or her RMD.

Have the RMD rules for certain beneficiaries changed? Yes. With the enactment of the SECURE Act within the Further Consolidations Act of 2020 there are now different rules depending upon whether the IRA owner died on or before December 31, 2019 or after December 31, 2019.

What are the RMD rules and options if my spouse is my beneficiary? The rules applying to a spouse beneficiary were not changed by the SECURE Act.

How does the CARES Act impact RMDs for 2020? First, the CARES Act as signed by President Trump on March 27, 2020, waives all RMDs for 2020. There is no beneficiary RMD for 2020. A beneficiary may wish to continue to take the distribution he or she had been taking in prior years, but the distribution will be a general voluntary distribution and not an RMD.

The second change applies to your beneficiary only if he or she is using the 5-year rule to close the inherited IRA. The new law is, 2020 is not to be considered in applying the 5-year rule. For example, Jane Doe, inherited her mother's IRA. Her mother had died in 2017. Under the 5-year rule she was to close this inherited IRA by December 31, 2022. Under the new law she now has until December 31, 2023, to close the inherited IRA or one additional year.

7. What RMD beneficiary rules apply to me as a non-spouse beneficiary if the IRA accountholder died before January 1, 2020? The tax rules in effect prior to the enactment of the Further Consolidated Appropriations Act of 2020 (including the SECURE Act) continue to apply. A summary is set forth.

The standard pre-2020 RMD beneficiary rules continue to apply as discussed below.

What is the general RMD formula for an IRA beneficiary? It is the same formula which applies to a living IRA accountholder, except the life-expectancy table to be used is different. An IRA beneficiary uses the Single life Table. An IRA beneficiary never uses either the Uniform Lifetime Table or the Joint and Last Survivor Table.

The Formula:
12-31-XX of Preceding Year = RMD for Current Year
Period from Single Life Table (As Adjusted)

Are there RMD Rules which apply to me as the inheriting beneficiary(ies)? Yes. After the death of the depositor, the beneficiaries will be required to withdraw required minimum distributions according to the following rules.

What life-expectancy table is used to determine the life-expectancy factor which applies to an inheriting IRA beneficiary? The Single Life Table applies.

Age of IRA Beneficiary	Distribution Period (in yrs)	Age of IRA Beneficiary	Distribution Period (in yrs)	Age of IRA Beneficiary	Distribution Period (in yrs)	Age of IRA Beneficiary	Distribution Period (in yrs)
0	82.4	28	55.3	56	28.7	84	8.1
1	81.6	29	54.3	57	27.9	85	7.6
2	80.6	30	53.3	58	27.0	86	7.1
3	79.7	31	52.4	59	26.1	87	6.7
4	78.7	32	51.4	60	25.2	88	6.3
5	77.7	33	50.4	61	24.4	89	5.9
6	76.7	34	49.4	62	23.5	90	5.5
7	75.8	35	48.5	63	22.7	91	5.2
8	74.8	36	47.5	64	21.8	92	4.9
9	73.8	37	46.5	65	21.0	93	4.6
10	72.8	38	45.6	66	20.2	94	4.3
11	71.8	39	44.6	67	19.4	95	4.1
12	70.8	40	43.6	68	18.6	96	3.8
13	69.9	41	42.7	69	17.8	97	3.6
14	68.9	42	41.7	70	17.0	98	3.4
15	67.9	43	40.7	71	16.3	99	3.1
16	66.9	44	39.8	72	15.5	100	2.9
17	66.0	45	38.8	73	14.8	101	2.7
18	65.0	46	37.9	74	14.1	102	2.5
19	64.0	47	37.0	75	13.4	103	2.3
20	63.0	48	36.0	76	12.7	104	2.1
21	62.1	49	35.1	77	12.1	105	1.9
22	61.1	50	34.2	78	11.4	106	1.7
23	60.1	51	33.3	79	10.8	107	1.5
24	59.1	52	32.3	80	10.2	108	1.4
25	58.2	53	31.4	81	9.7	109	1.2
26	57.2	54	30.5	82	9.1	110	1.1
27	56.2	55	29.6	83	8.6	111+	1.0

What required distributions must I take once the accountholder dies if I am a nonspouse beneficiary? If the accountholder died before taking his or her required distribution, if any, for the year of his or her death, your pro rata amount will need to be paid to you by December 31 of the year of his or her death.

If the accountholder died before his or her required beginning date, then your required distribution for subsequent years will be calculated using the life distribution rule unless you expressly elect to use the five-year rule. Under the five-year rule, you must remove all funds from the inherited IRA by December 31 of the year that contains the fifth anniversary of the accountholder's death. There is no requirement to take any set amount any year, only close the account by the deadline. The life distribution rule must be elected on or before December 31 of the year following the year the accountholder died. However, the IRS in some situations may waive this deadline. Unless the accountholder limited your ability to take distributions in excess of the required amount, you may take larger distributions. Under the life distribution rule, you would determine your age in the following year and then determine the factor from the Single Life Table. For subsequent years you would subtract one for each year after the initial year. After your death, your beneficiary(ies) will continue the schedule which applied to you. However, your beneficiary would have the right to take larger distributions unless you would impose a limit.

If the accountholder died on or after his or her required beginning date, then your required distribution for subsequent years will be calculated using the life distribution rule unless you would be older than the accountholder. In this case, a spe-

cial calculation must he made. After your death, your beneficiary(ies) will continue the schedule which applied to you. However, your beneficiary would have the right to take larger distributions.

What RMD rules apply to the beneficiary? The RMD rules depend upon whether you die before or on/after your required beginning date. You and your beneficiary will want to understand the following four situations.

Situation #1. If your beneficiary is a living person other than your spouse, or your spouse is not your sole beneficiary, and you die before your required beginning date, then the beneficiary has two options:

Five-Year Payout – All funds must be distributed by December 31 of the year that contains the fifth anniversary of your death. As much or as little as the beneficiary desires can be removed each year, as long as the entire IRA balance is distributed by the deadline.

Life-Distribution Rule – Under this option, the distribution is based on the beneficiary's life-expectancy, using one-year reduction. This is the option which automatically applies unless your beneficiary elects the five-year payout option on or before 12/31 of the year after the year of death.

If a beneficiary using the life-distribution rule neglects to take a distribution when required, normally a 50% excise tax would be owing on the amount which was required to be withdrawn but was not. The IRS is allowed to waive this excise tax if the beneficiary would agree to a total distribution of the IRA account by 12/31 of the year which includes the fifth anniversary of the accountholder's death. Although the IRS is allowed to waive the 50% excise tax, it is not required to do so.

Situation #2. If your beneficiary is a living person other than your spouse, or your spouse is not your sole beneficiary, and you die after your required beginning date, then the applicable distribution period for years after the year of your death will be based on the remaining life-expectancy of your designated beneficiary. The beneficiary's remaining life-expectancy is calculated using the age of your beneficiary in the year following the year of your death. For subsequent years, the initial factor is reduced by one for each subsequent year.

Situation #3. If you did not designate a living person as a beneficiary and you died before your required beginning date, then the estate or other beneficiary will be required to use the 5-year rule. The fact that RMDs are waived for 2020 has the following impact on the 5-year rule. Year 2020 is not to be considered in the 5-year calculation. It is to be disregarded. The practical effect is, a beneficiary has one additional year before the inherited IRA must be closed.

Situation #4. If you do not designate a living person as a beneficiary and you die on or after your required beginning date, then the applicable distribution period (i.e. the original factor) for years after the year of your death is based on your age and life-expectancy as determined as of December 31 of the year you die. For subsequent years, the original factor is reduced by one for each elapsed year.

Special Exception. Under Situation #2 or Situation #4, the distribution period will be based on the remaining life expectancy of the accountholder, as determined under Situation #6, rather than that of the beneficiary, if it results in a longer distribution period.

If I designate a trust as my IRA beneficiary, will such trust be entitled to use a distribution period which normally would apply only to a beneficiary who is an individual? Yes. If special rules are met, the beneficiaries of a trust will be treated as if they had been the beneficiaries of the IRA. The effect of this is that the age of such beneficiary(ies) may then be used to determine the distribution period which applies after your death.

The trustee of the trust, by October 31 of the year after your death, must either provide a copy of the actual trust document for the trust that is named as a beneficiary as of your date of death, or provide a final list of all beneficiaries of the trust as of October 31 of the year after the accountholder's death (including contingent and remainderman beneficiaries with a description of their entitlement); certify to the best of his or her knowledge that the list is correct and complete and that requirements 1-3 below are satisfied; and agree to provide a copy of the trust instrument upon demand.

1. The trust is a valid trust under state law, or would be but for the fact that there is no CORPUS.
2. The trust is irrevocable or will, by its terms, become irrevocable upon your death.
3. The beneficiaries of the trust who are the beneficiaries with respect to the trust's interest in the IRA are identifiable from the trust instrument.

What RMD rule applies if an inheriting beneficiary alive as of December 31, 2019 of an IRA accountholder who died before January 1, 2020, dies on or after January 1, 2020? The 10-year rule applies. Any subsequent beneficiary is not entitled to continue the life distribution schedule which applied to the person who was a beneficiary as of December 31, 2019.

For a general discussion of the rules and procedures applying to you as an IRA beneficiary review section 6.

8. What RMD beneficiary rules apply to me as a non-spouse beneficiary if the IRA accountholder died on or after January 1, 2020? You must determine if you are an eligible designated beneficiary or if you are not an eligible designated beneficiary.

What are the beneficiary RMD rules applying to me if I am a non-spouse beneficiary who is not an eligible designated beneficiary after December 31, 2019? The general rule is, a non-spouse beneficiary must use the 10-year rule. The 10-year rule replaces the five year rule. The life distribution rule no longer may be used by a non-spouse beneficiary. This includes a beneficiary which is a qualified trust, a nonqualified trust, an estate on any other non-living entity such as a charity. The general tax rule is, you as a non-spouse beneficiary may structure distributions over this 10-year period as you choose, and will include these distributions in your income except to extent that a portion of the distribution is the withdrawal of basis.

So, if the IRA accountholder died after December 31, 2019, then you must close this inherited IRA must be closed by December 31 of the year containing the 10th anniversary of the death. You are no longer eligible to stretch out distributions over your life expectancy. You as a non-spouse beneficiary do not have the right to elect to treat the inherited IRA as my own IRA and you cannot take a distribution and then make a rollover contribution. You do have the right to transfer an inherited IRA to another IRA custodian/trustee unless the IRA accountholder imposed a restriction preventing such a transfer. If your non-EDB beneficiary dies during this 10-year period, the 10-year period continues to apply to a subsequent beneficiary.

What is the beneficiary RMD rule applying to my non-spouse beneficiary who is not a person and who is not an eligible designated beneficiary and I die after December 31, 2019? The 5-year rule applies if the beneficiary is a charity, an estate or a non-qualified trust.

What are the beneficiary RMD rules applying to me if I am a non-spouse beneficiary who qualifies as an eligible designated beneficiary and the IRA accountholder died after December 31, 2019? You are entitled to use either the life distribution rule or the 5-year rule, if applicable, and you do not use the 10-year rule. There are six individuals or trusts who qualify as an eligible designated beneficiary.

1. A beneficiary who is disabled as defined for IRA and pension plan purposes.

2. A non-spouse beneficiary who is not more than 10 years younger than the deceased IRA. For example, Jane age 65 and designated her brother John age 58 as her primary beneficiary.

3. A beneficiary who is a child of the IRA owner who has not reached the age of majority. This exception is limited. Once the child attains the age of majority, she or will have 10 years in which to close the inherited IRA. In most states, the age of majority is age 18.

4. A beneficiary who is chronically ill. A certification must be provided showing a period of inability that is an indefinite one and which reasonably is expected to be lengthy.

5. A beneficiary which is a trust which meets certain special rules. These rules are not the rules that must be met under pre-2020 rules to have a qualified trust. First, the trust must have multiple beneficiaries. Second, the trust must have at least one beneficiary who is either disabled or chronically ill. Third, all of the beneficiaries are treated as designated beneficiaries for purposes of determining the distribution period.

6. A spouse beneficiary

Two Types of Trusts Will Qualify

First, upon the death of the IRA owner, the trust is divided immediately into separate trusts for each beneficiary. There is to be a separate life distribution rule calculation for each beneficiary who is disabled or chronically. It is not clear what calculation is to be made for other beneficiaries.

Second, upon the death of the IRA owner, the trust must provide that only a beneficiary who is disabled or a beneficiary who is chronically is entitled to be distributed such trust funds. Other beneficiaries may be distributed such funds only after all such eligible designated beneficiaries have died. However, in that situation any remaining beneficiary (not an eligible designated beneficiary) shall be treated as a beneficiary of the eligible designated beneficiary.

If your EDB beneficiary dies during their life distribution RMD period and funds remain in the inherited IRA, then the 10-year rule applies to any subsequent beneficiary.

9. What rules and/or options apply to me if I am a spouse beneficiary? You may maintain your deceased spouse's IRA as an inherited IRA or you may elect to treat it as your own IRA. These options and rules are discussed below.

What required distributions must I take once the accountholder dies if I am a spouse beneficiary who was the sole primary beneficiary? It will depend upon whether you elect to treat your deceased spouse's IRA as your own IRA or whether you will maintain the IRA as an inherited IRA. Generally, a spouse age 59½ or older will elect to treat the deceased spouse's IRA as their own. Many times a spouse younger than age 59½ will not treat as own immediately if he or she might need to take a distribution before age 59½. Any death distribution to an IRA beneficiary is not subject to the 10% additional tax.

The following discussion is in question and answer format.

Elect as Own IRA, or Keep as an Inherited IRA

Option #1. Treat as Own – No Longer an Inherited IRA

You may treat your spouse's IRA as your own IRA if you were your spouse's sole beneficiary. This will be the election that most spouses will make, but there are times when you may wish to elect Option #2 or Option #3.

General Rule. When both spouses are age 59½ and older, and relatively the same age, the surviving spouse will normally want to elect to treat the deceased spouse's IRA as their own.

You will make this election by indicating on an administrative form or by writing a letter that you wish to treat your spouse's IRA as your own.

Understanding the Tax Consequences of Distributions from an IRA Which You Treat as Your Own

You are treated as if you had been the original contributor. This is your own IRA. Under the tax rules which require a person to aggregate his or her IRAs, you will aggregate this IRA with any other IRA you maintain. The age 72 required distribution rules will apply to you, if applicable.

It is not an inherited IRA any longer. If you take a distribution when you are younger than age 59½, you will owe the 10% additional tax unless an exception would apply. The death exception does not apply. You acquire whatever "basis" your deceased spouse had as of their death.

When funds are withdrawn or distributed from this IRA, you will generally include the full amount in your gross income for federal income tax purposes. The amount of tax you will need to pay because of an IRA distribution will be added to your other income, and you will pay tax at whatever your marginal income tax

bracket would require. If your spouse had a nontaxable amount within his or her IRA because he or she had made non-deductible contributions to the traditional IRA, or had rolled over non-deductible contributions from a 401(k) plan or other pension plan, then a portion of that distribution will not be taxed. This subject of non-deductible contributions or basis is beyond the scope of this brochure. You will want to consult with your tax advisor and also perform your own research.

By treating his or her IRA as your own IRA, you do realize the tax benefit that taxation of the earnings is deferred until actually distributed, as is taxation of the original contributions. As with your other traditional IRAs, you may convert these funds to a Roth IRA.

Generally, it is preferable for various tax reasons for you as a surviving spouse over age 59½ to elect to treat your deceased spouse's IRA as your own, the sooner the better. This is certainly true for couples in their 70's, 80's or 90's.

Option #1A Rollover

A spouse beneficiary who is NOT the sole beneficiary of their deceased spouse's IRA (i.e. an inherited IRA) may NOT treat this inherited IRA as his or her own IRA, but may roll it over to his or her own IRA. Any required distribution for the current year is ineligible to be rolled over. Although not identical, the act of rolling over to your own IRA the IRA funds of your deceased spouse is very similar to when you elect to treat his or her IRA as your own. There is no longer an inherited IRA. All of the standard rules applying to an IRA accountholder will apply to you.

What are the two primary tax reasons for me as a surviving spouse wanting to elect to treat my deceased spouse's IRA as my own IRA or to roll it over?

First, the funds will continue to be in a tax deferred account and taxes will not need to be paid until distributed from your IRA.

Second, once the funds are within your IRA, your beneficiaries will be able to use the RMD rules applying after you die rather than the RMD rules applying after your spouse dies. Rather than using the RMD distribution period being based on your age it will be based on the age of your children. The tax deferred distribution period would be much longer.

You as a surviving spouse want to designate your own IRA beneficiaries or update your beneficiaries.

Options #2 & #3. Maintain as an Inherited IRA

<u>Option #2: Life-Distribution Rule.</u> You, as the surviving spouse, may elect to use the life-distribution rule to comply with the required distribution rules. This means you must take required distributions over your life expectancy. If you are the sole beneficiary, then you must commence distribution by December 31 of the later of: (i) the year your spouse would have attained age 70½, or (ii) the year after the year he or she died. This special rule many times means the surviving spouse is not required to take a distribution for many years. If you are not the sole beneficiary, then you must commence distribution by December 31 of the year after the year your spouse died.

There are times when a surviving spouse will not want to treat a deceased spouse's IRA as their own. For example, David and Rhonda are both age 52. David dies in January of 2015. In this situation, Rhonda who is age 52 may not want to immediately treat David's IRA as her own. The distributions she takes from the inherited IRA (Rhonda as beneficiary of David's IRA) will not be subject to the 10% tax as the distributions are from an inherited IRA. However, if Rhonda would treat David's IRA as her own, and then take distribution prior to age 59½, she would owe the 10% additional tax unless one of the other exceptions applied.

<u>Option #3: 5-Year Rule.</u> You, as the surviving spouse, may elect to use the 5-year rule if your spouse died before his or her required beginning date. This option is unavailable if the IRA accountholder died on or after his or her required beginning date (April 1 of the year following the attaining of age 70½). This election will generally be made the least frequently of the three options. You are required to withdraw all funds within the IRA by December 31 of the fifth year following the year your spouse died. In effect, you may take distributions during six (6) different tax years. There is no requirement to take periodic or scheduled distributions. The only requirement is that all of the IRA funds be distributed by the end of the 5-year time period.

All funds must be distributed by December 31 of the year that contains the fifth anniversary of the death. As much or as little as the beneficiary desires can be removed each year, as long as the entire IRA balance is distributed by the deadline. The fact that RMDs are waived for 2020 has the following impact on the 5-year rule. Year 2020 is not to be considered in the 5-year calculation. It is to be disregarded. The practical effect is, a beneficiary has one additional year before the inherited IRA must be closed.

You, as the surviving spouse, may elect Option #2 or #3, and then later elect to treat the inherited IRA as your own.

If you elect alternative #2 or #3, you will want to designate your own beneficiary(ies) so that you designate who will receive these funds after your death. If you are a surviving spouse who is the sole beneficiary, then the general rules is: for purposes of determining the distribution period applying to your spouse's beneficiary(ies), you are treated as if you had been the IRA owner. This means, each of your beneficiary(ies) will be required to take a distribution according to the schedule established for each beneficiary. If you are NOT the sole beneficiary, then the general rule is: each of your beneficiary(ies) will be required to take a distribution according to the schedule you established, or they may take a larger distribution.

Federal Income Tax Consequences.

1. Deferred Taxation. Your Inherited IRA funds (whether contributions or related earnings) are not taxed until actual distribution unless (1) you engage in a prohibited transaction, (2) you invest in collectibles, (3) the original contribution was non-deductible, (4) you pledge your Inherited IRA as security, or (5) you engage in a trade or business with these funds so that the unrelated business income tax imposed by Internal Revenue Code section 511 applies. If you engage in a prohibited transaction at any time during the year, your Inherited IRA funds will be treated as if they were distributed on January 1 of that year. IRC section 4975 names the prohibited transactions. Some examples: (1) borrowing from your Inherited IRA; (2) selling property to your Inherited IRA; (3) using your Inherited IRA as security for a loan; or (4) receiving unreasonable compensation for managing your Inherited IRA. If any of your Inherited IRA funds are invested in collectibles after 1981, the amount invested is considered distributed to you in that year. Collectibles include tangible personal property such as artwork, rugs, antiques, metals, gems, coins, alcoholic beverages, etc. Exception #1: Inherited IRA funds may be invested in certain gold, silver, and platinum coins issued by the United States. Exception #2: Inherited IRA funds may be invested in any coin issued under the laws of any state. Exception #3: After December 31, 1997, an Inherited IRA may purchase certain gold, silver, platinum or palladium bullion. Such bullion must be in the physical possession of the Inherited IRA trustee or custodian. Such bullion must be of a fineness that a contract market requires for metals which may be delivered in satisfaction of a regulated futures contract.

2. Transfers. You are entitled to transfer other traditional Inherited IRA funds or assets into this Inherited IRA, as long as such funds are inherited from the same decedent.

3. RMDs for Beneficiaries of an Inherited IRA Arising from a Direct Rollover from a 401(k) Plan or Other Eligible Employer Plan. On or after January 1, 2007, if you are a nonspouse beneficiary of a deceased plan participant, then you will be able to directly roll over your inherited funds into a new type of inherited IRA, if the plan is amended to authorize such a direct rollover. Prior to 2007, a nonspouse beneficiary of a pension plan participant was unable to roll over such inherited funds. He or she was required to take distributions from the pension plan as the plan stipulated.

What is the benefit of a direct rollover? Receiving distributions will generally be a less complicated process if the inherited funds are within an inherited IRA rather than an employer-sponsored plan. Why? In many cases, plan administrators would rather not have to make a number of distributions to an inheriting beneficiary. They prefer making one distribution, as occurs when a terminating employee requests a direct rollover of their funds into an IRA. Many times an inheriting beneficiary will have more investment options with their own inherited IRA than if the funds stay within the employer-sponsored plan. Taking distribu-

tions from an IRA is generally much easier than taking distributions from an employer-sponsored plan. For example, it is very possible that the employer-sponsored plan would limit a beneficiary to taking a distribution to just once or twice a year. An inherited IRA normally allows more frequent distributions.

What must a nonspouse QP beneficiary do to make a direct rollover? A nonspouse beneficiary must establish an Inherited IRA with an IRA custodian, and inform the qualified plan administrator that they wish to perform a direct rollover of the inherited QP funds to their Inherited IRA. Both the plan administrator and the IRA custodian will normally require the beneficiary to complete a form or forms authorizing this direct rollover distribution from the qualified plan, and certifying that an Inherited IRA has been established with the IRA custodian.

What rules apply to a beneficiary for receiving the required distributions from the Inherited IRA? You will be required to take required distributions from this new type of inherited IRA. The IRS has adopted the approach that the inherited IRA established to receive the direct rollover must apply the same required distribution rules as set forth in the ERP. That is, if the ERP mandated that the 5-year rule applies, then the 5-year rule must be applied by the IRA, unless a special election has been made to use the life-distribution rule. If the ERP mandated the life-distribution rule, then the life-distribution rule must be applied by the IRA.

Special rule and election. If the 5-year rule applies, the nonspouse beneficiary may elect to use the life-distribution rule rather than the 5-year rule. There are two requirements. First, the funds must be directly rolled over before the end of the year following the year of death. Secondly, the life-distribution rule must be determined using the same nonspouse beneficiary. Note that the amount ineligible to be directly rolled over includes the required distribution amount for any prior year to the extent not distributed.

4. Distributions.

A. In General. For Inherited IRA purposes, a distribution is defined to be a removal of funds or property from an Inherited IRA, which is actually paid to you or your beneficiary, or which is transferred to another qualifying Inherited IRA or inherited IRA.

A distribution will either be fully taxable, partially taxable, or not taxable at all depending on the amount of the distribution which will be required to be included in income for federal income tax purposes.

B. Rollovers and Transfers. The general tax rule until 2018 was that a nonspouse beneficiary is not authorized to make a rollover contribution of an IRA distribution. That is, a nonspouse beneficiary must remember that he or she has no rollover rights with respect to a distribution from an inherited IRA unless the exception enacted in 2018 for the return of an IRS levy would apply. If the IRS levies upon your inherited IRA and must repay to you some or all of the levied amount, you will have until your tax filing deadline for the year you receive the repayment to make your rollover contribution or contributions of some or all of the returned amount.

A transfer occurs when ownership of the Inherited IRA funds or property is changed from one Inherited IRA custodian/trustee, on behalf of an Inherited IRA depositor or beneficiary, to a subsequent Inherited IRA custodian /trustee on behalf of the same depositor or beneficiary. A transfer is not a reportable event to either the individual or the IRS, because an actual payment has not been made. The following types of transfers may take place with respect to your Inherited IRA: (1) you may transfer funds to another of your Inherited IRAs (but only from the same decedent); (2) there may be a transfer of your Inherited IRA funds to your spouse or ex-spouse, if pursuant to a court decree or property settlement or (3) there will be a transfer by operation of law from your Inherited IRA to your beneficiary's inherited IRA.

C. Tax Treatment of Distributions. Any money or property that you receive from your Inherited IRA is a distribution. The **general rule** is that any distribution be included in the gross income of the recipient in the year received. The favorable ten-year averaging or capital gain provisions of IRC section 402 do not apply. If any non-deductible contributions or basis exists within the inherited IRA, then a portion of the distribution will not be taxable as determined by applying the

rules of IRC section 72 as modified by some special Inherited IRA rules. See IRS Publication 590.

Distributions from your traditional Inherited IRA may be fully or partly taxable, depending on whether your Inherited IRA includes any non-deductible contributions.

Fully taxable. If only deductible contributions were made to your traditional Inherited IRA (or Inherited IRAs, if you have more than one), you have no basis in your Inherited IRA. Because you have no basis in your Inherited IRA, any distributions are fully taxable when received.

Partly taxable. If any non-deductible contributions were made to any of your traditional Inherited IRAs, you have a cost basis (investment in the contract) equal to the amount of those taxed contributions. These non-deductible contributions are not taxed when they are distributed to you. They are a return of the decedent's investment in the Inherited IRA.

Only the part of the distribution that represents non-deductible contributions (the cost basis) is tax-free. If non-deductible contributions have been made, distributions consist partly of non-deductible contributions (basis) and partly of deductible contributions, earnings, and gains (if there are any). Until all of the basis has been distributed, each distribution is partly nontaxable and partly taxable.

Form 8606. You must complete Form 8606, and attach it to your return, if you receive a distribution from a traditional Inherited IRA and any non-deductible contributions have ever been made to any of your traditional Inherited IRAs. Using the form, you will figure the nontaxable distributions and the total Inherited IRA basis.

Note. If you are required to file Form 8606, but you are not required to file an income tax return, you still must file Form 8606. Complete Form 8606, sign it, and send it to the IRS at the time and place you would otherwise file an income tax return.

A Tax to Consider Before Withdrawing IRA Funds. Effective as of January 1, 2013, a 3.8% tax went into effect. The IRS has chosen to call this tax, the Net Investment Income Tax.

This 3.8% tax applies to certain individuals having net investment income and certain estates and trusts having net investment income. To determine the tax owing, a person will multiply 3.8% time the lesser of: (1) his or her net investment income (NII) or a person's modified adjusted gross income as reduced by a threshold amount as set forth in the following table:

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single	$200,000
Head of household (with qualifying person)	$200,000
Qualifying widow(er) with dependent child	$250,000

This tax will be owed only if an individual has net investment income and his or her modified adjusted gross income exceeds the applicable threshold amount.

<u>The tax means an individual before taking an IRA distribution will want to determine if he or she will have to pay the 3.8% tax on account of such distribution.</u> For most people and situations, a person will not owe the 3.8% tax on account of his or her IRA or pension distribution, but in some situations the tax would be owed.

There will be times, however, when a person's IRA distribution will mean the individual will have to pay the 3.8% tax on account of the IRA distribution.

There will also be times when a person will take an IRA distribution and he or she will be required to pay the 3.8% tax, but the amount owed does not increase because of such IRA distribution.

What types of income are defined to be non-investment income?

Distributions from IRAs, pension plans, 401(k) plans, tax sheltered annuities, etc. are not investment income. Social security benefits are not investment income. Wages and income or profits from a nonpassive business including self-employment income are not investment income. Unemployment compensation and workers compensation are not net investment income.

What types of income are net investment income and so they might be subject to the 3.8% tax?

Investment income includes interest, dividends, gains from the sale of stocks, bonds, mutual funds, capital gain distributions from mutual funds, certain sales related to real estate, rental and royalty income, non-qualified annuities, income from businesses involved in trading of financial instruments or commodities, business income arising from certain passive activities, and the sale of an interest in a partnership and S corporations by an individual who had a passive interest. Such investment income is reduced by certain expenses properly allocable to the income. And any income or gain excluded from gross income for regular income tax purposes is also excluded from a person net investment income (e.g. $250,000 exclusion for sale of primary residence).

This 3.8% tax is different from the 9/10ths of 1 percent Additional Medicare tax which also went into effect on January 1, 2013.

If you have net investment income for a tax year, then you should review the IRS instructions for Form 8960, Net Investment Income Tax – Individuals, Estates and Trusts to determine if you are required to complete and file this form.

D. Discussion of the Special Rules Applying to Tax-Free Charitable IRA Distributions/Contributions. The federal income tax laws governing Qualified Charitable Distributions are now permanent as a result of a new budget and tax bill as signed into law by President Obama on December 18, 2015.

The IRS has issued guidance that a qualified charitable distribution will count towards your required minimum distribution.

A qualified charitable distribution (QCD) is a non-taxable distribution made directly by the trustee of your IRA (other than a SEP or SIMPLE-IRA) to an organization eligible to receive tax-deductible contributions. You must have been at least age 70½ when the distribution was made. Also, you must have the same type of acknowledgement of your contribution that you would need to claim a deduction for a charitable contribution. See Records To Keep in IRS Publication 526. Charitable Contributions. Your total QCDs of the year cannot be more than $100,000.If you file a joint return, your spouse can also have a QCD of up to $100,000. However, the amount of the QCD is limited to the amount of the distribution that would otherwise be included in income. If your IRA includes non-deductible contributions, the distribution is first considered to be paid out of otherwise taxable income.

What requirements must I meet in order to take advantage of this charitable contribution law? (a) You must be age 70½ or older; (b) You must have a traditional or Roth IRA; (c) You must be allowed to itemize deductions on your Form 1040 income tax return; (d) Your contribution to a qualifying charity must also have been able to qualify as an itemized deduction, but for this special charitable contribution rule under Code section 170 (disregard the percentage limits). **Caution:** You receive the tax-free charitable contribution treatment only if the entire amount would have qualified as a charitable deduction. Thus, if the contribution amount is reduced because of a benefit received by you in exchange, or because the custodian does not obtain sufficient substantiation, the exclusion is not available with respect to any part of the IRA distribution; (e) The distribution, but for this rule, must otherwise have been required to be included in your gross income. The withdrawal of basis (i.e. non-deductible contributions or nontaxable distributions) from a traditional IRA and/or Roth IRA is not includable in income, and consequently, such withdrawal does not qualify as a tax-free charitable contribution; and (f) Payment, no matter in what form (electronic transfer, check, etc.), must be made directly from the IRA to the qualifying charitable organization. The instrument used for payment must not be negotiable by the IRA accountholder. The IRS has stated, however, that the accountholder may hand deliver the payment to the charity.

IRS Reporting Tasks for QCDs. There is no special reporting for QCDs by the IRA custodian. Many times IRA accountholders and their tax advisors think the IRA custodian should be preparing the Form 1099-R to show the distribution as being tax-free. This is not the IRS procedure. A QCD is to be reported as a "normal" distribution since you are older than age 59½. You will be required to complete lines 15a and 15b of your federal income tax return. The general rule is that most IRA distributions are fully taxable so line 15a is left blank and the taxable amount is inserted on line 15b. An exception applies to QCDs. If the total distribution is a QCD, enter 0 on line 15b and write QCD next to line 15b. If only part of the distribution is a QCD, enter the part that is not the QCD on line 15b. Enter QCD next to line 15b.

What new QCD rule applies for 2020?

Effective for QCDs made in 2020 and subsequent years, the QCD exclusion amount for the current year must be reduced by an amount (but not below zero) equal to the excess of: the aggregate of all deductions allowed for all tax years on or after attaining age 70½ over the aggregate amount of the QCD reductions for all tax years preceding the current year.

E. Withholding. If you receive an Inherited IRA distribution which is payable upon demand, the payer-custodian will withhold Federal income tax at the rate of 10% unless you elect not to have any withholding or instruct to have a greater amount withheld. You use Form W-4P to instruct your custodian that you do not want withholding.

F. Tax Credit for the Elderly. If you are age 65 or older, amounts you receive from your Inherited IRA may qualify for the retirement income credit. See IRS Publication 524.

G. Ten Percent Additional Tax. The general Inherited IRA taxation rule is that an Inherited IRA distribution will be included in the income of the beneficiary but the 10% additional tax does not apply.

H. Effect on Taxation of Social Security and Railroad Retirement Benefits. Commencing with the 1994 tax year (i.e. January 1, 1994), new rules govern when Social Security benefits and Tier 1 Railroad Retirement benefits must be included in a taxpayer's gross income. If you receive such benefits, then you must include a portion of these benefits in your gross income if your provisional income exceeds either of two threshold amounts. Your provisional income includes modified adjusted gross income (adjusted gross income plus tax-exempt interest plus certain foreign-source income) plus 50% of your Social Security or Railroad Retirement benefit.

If your provisional income exceeds the following applicable threshold amount – $32,000 for married taxpayers filing joint returns, $25,000 for unmarried taxpayers and $0 for married taxpayers filing separate returns – then you are required to include in gross income the lesser of (1) 50% of your Social Security or Railroad Retirement benefit or (2) 50% of the excess of your provisional income over the applicable threshold level.

If your provisional income exceeds the following applicable threshold amount – $44,000 for married taxpayers filing joint returns, $34,000 for unmarried taxpayers and $0 for married taxpayers filing separate returns, then you are required to include in gross income the lesser of (1) 85% of your Social Security or Railroad Retirement benefit or (2) the sum of 85% of the excess of your provisional income over the applicable threshold level plus the lesser of: (a) the amount determined using the applicable threshold described in the immediately preceding paragraph or (b) $4,500 if you are unmarried, $6,000 if you are married and filing jointly and $0 if you are married but are filing a separate return.

The consequence of this rule may be that a distribution from your Inherited IRA could result in some of your Social Security benefits being taxable.

5. Transfer Incident to Divorce and/or Election to Treat as Own. When an Inherited IRA is transferred from one spouse to another by a divorce decree or written document relating thereto, or after the death of one spouse, the transfer is not a distribution and is deemed tax-free. The Inherited IRA becomes the Inherited IRA of the transferee as of the date of transfer, subject to all rules governing Inherited IRAs.

6. Special Taxes that Apply Even Though No Distribution.

A. Six Percent Excise Tax on Excess Contributions. If the original accountholder had made any excess contributions to your inherited IRA, and these funds are still in the account, you must pay a 6% excise tax each year on the excess amounts that remain in your Inherited IRA. The tax cannot be more than 6% of the value of your Inherited IRA as of the end of the tax year. In general, an excess contribution is an amount paid to an IRA which exceeds the contribution limit (lesser of 100% of compensation or the applicable limit) or which is an improper rollover amount.

B. Fifty Percent Excise Tax on Excess Accumulations.

There is a 50% excise tax on any excess accumulations in your Inherited IRA in the year you attain age 70½ and any subsequent year. An excess accumulation is the difference between the amount actually distributed to you or your beneficiary, and the amount required to be distributed.

7. Form 5329 – Reporting Requirements when an Excise Tax applies.

If you or your beneficiary(ies) owe the 6% excise tax on an excess contribution, or the 50% excise tax for failing to satisfy the minimum distribution requirements, you or your beneficiary(ies) must file IRS Form 5329. See the instructions for Form 5329 for more information. You may be required to file Form 5329 even though your income level would not otherwise require the filing of an income tax return (i.e. Form 1040 or 1040A). If you engaged in a prohibited transaction, then you must report the entire Inherited IRA's value as of such day as being distributed.

8. Converting or Rolling Over this Traditional Inherited IRA to a Roth Inherited IRA.

A beneficiary cannot ever convert funds within an inherited traditional IRA to a Roth Inherited IRA.

9. Recharacterizing a Contribution.

The special rules allowing an accountholder to recharacterize a contribution do not apply to this inherited IRA.

10. Federal Estate and Gift Taxes. IRC sections 2039(c) and 2517 provide limited exceptions so that certain Inherited IRA transactions will not be subject to Federal estate or gift taxes. For example, no Federal gift tax has to be paid when you name a beneficiary or when the funds are paid to a beneficiary after your death. In general, Inherited IRA funds are includable in the computation of Federal estate taxes. Publication 590 should be read for an explanation of the rules.

11. Discussion of the Special Rules Applying to Tax-Free Transfers to Health Savings Accounts. On or after January 1, 2007, a person who is eligible to make an HSA contribution and who has funds within a traditional IRA or Roth IRA may make a special election once during his or her lifetime to transfer a certain amount from such IRA to their HSA. This type of special transfer is called a qualified HSA funding distribution. Such an election, once made, is irrevocable. The amount transferred in such a direct trustee-to-trustee transfer will be excluded from the person's income.

This one-time transfer rule allows a person to change funds which would be taxable (money distributed from an IRA) to funds which will escape taxation if they are withdrawn from the HSA and used to pay qualified medical expenses.

The right allowing a person to transfer funds from an IRA to an HSA tax-free applies even when the person has inherited an IRA. When a beneficiary transfers funds from his or her inherited IRA to an HSA, such a transfer will count to satisfy his or her IRA required distribution from the inherited IRA.

The amount contributed to an HSA, when transferred from an IRA, does count against the HSA contribution limit for the current year.

The maximum amount which can be transferred tax-free is determined at the time of the transfer and not later in the year. A person who is covered under a HDHP in March of 2015 may transfer from an IRA to an HSA in March the "family" amount even though later in 2015 he switches to a "single" HDHP.

The amount to be excluded is limited. It shall not exceed the annual contribution limit for single or family coverage, as applicable, as based on the HDHP coverage as of the time of the special transfer, or, in some cases, the amount of an earlier qualified HSA funding distribution. Thus, the maximum amount eligible for this special transfer for 2015 will be $3,500 for single coverage and $6,650 for family coverage plus any applicable catch-up amount.

Any traditional IRA and/or Roth IRA funds may be transferred to an HSA, including non-taxable basis. However, if a person chooses to transfer his or her basis from either a traditional IRA and/or Roth IRA, the individual will not be able to carry over this basis to his or her HSA. The IRS has adopted the position that the general HSA distribution rule will be applied even if a person has transferred IRA basis into his or her HSA.

The general rule is that a person is allowed only one tax-free transfer during his or her lifetime. One means one. Therefore, if a person has two or more IRAs and wants to use amounts in multiple IRAs to make the tax-free transfer, if eligible, the individual must first make an IRA to IRA or Roth IRA to Roth IRA transfer of the amounts to be distributed into a single IRA, and then make the one tax-free transfer. A person who has both a traditional IRA and a Roth IRA will only be able to do the transfer from one or the other IRA.

A person will be able to transfer SEP-IRA or SIMPLE-IRA funds to his or her HSA only if the SEP or SIMPLE is not an "on-going" plan. That is, the transfer is permissible as long as the employer has not made an employer contribution for the plan year ending with or within the SEP-IRA or SIMPLE-IRA owner's tax year.

There are special testing period taxes if you make this special type of transfer and then end your coverage under an HDHP before a one-year time period has expired.

The testing period starts with the month in which the qualified HSA funding contribution is contributed to the HSA and ends on the last day of the 12th month following such month.

If, at any time during the testing period, you are no longer an eligible individual, then you will be penalized as follows. You will have to add to your income all contributions which had been excluded from income. This is required for the first month you become ineligible. The tax you owe will depend on what marginal tax rate applies. You will also owe an additional 10% tax.

Caution — Once the IRA funds are contributed to the HSA, there is no authority or provision in the law to recontribute the funds to the IRA. However, if the recontribution took place within the standard 60-day rollover period, it would be permissible.

IRS Reporting Tasks for Qualified HSA Funding Distributions. There is no special reporting for Qualified HSA Funding Distributions (HFD). Many times IRA accountholders and their tax advisors think the IRA custodian should be preparing the Form 1099-R to show the movement of the IRA funds to their HSA as being tax-free. This is not the IRS procedure. An HFD is to be reported as any other IRA distribution (code 7 if you are 59½ or older and code 1 if less than age 59½). You will be required to complete lines 15a and 15b of your federal income tax return to show what portion is taxable, if any. If the total distribution is an HFD, then enter 0 on line 15b and write HFD next to line 15b.

12. Discussion of the Special Rules Applying to Distributions to Expatriates. The Heroes Earnings Assistance and Relief Tax Act of 2008 changed the tax laws regarding expatriation. President Bush signed this bill into law on June 17, 2008. The expatriation changes apply to any individual whose expatriation date is on or after June 17, 2008.

An expatriate is any United States citizen who relinquishes his or her citizenship and any long term resident of the United States who ceases to a lawful permanent resident. An individual's expatriation date is the date he or she relinquishes citizenship or ceases being a permanent resident. A covered expatriate, in general, is an expatriate who meets the requirements of subparagraphs (A), (B), or (C) of Internal Revenue Code section 877(a)(2). However, there are exceptions where such a person is not treated as a covered expatriate. An individual will need to consult with his or her attorney or tax advisor.

There are special tax rules applying to IRA accounts and other tax preferred accounts. Any IRA of a covered expatriate is deemed totally distributed on the day before his or her expatriation date. The 10% early distribution tax does not apply. There are to be appropriate adjustments made with respect to subsequent distributions from the account to reflect the deemed distribution. Special withholding rules apply.

13. An IRA Distribution May Disqualify a Person For the Premium Tax Credit. The premium tax credit (PTC) is a refundable tax credit authorized under the Affordable Care Act. It assists individuals and families with low or moderate income to afford health insurance purchased through a health insurance marketplace. A person is ineligible for this credit if the health insurance coverage is purchased outside the marketplace. A person who is eligible to enroll in certain employer-sponsored coverage or government programs such as Medicare, Medicaid or TRICARE is ineligible. To be eligible and to obtain this credit a person must meet certain requirements and must file a federal income tax return. One of the requirements is that a person's household income must fall within a certain range.

If you are receiving this credit, before taking any IRA distribution you will want to determine that such an IRA distribution will not make you ineligible to receive this credit. You become ineligible for this credit if the increase in your household income increases to more than 400% of the Federal poverty line for your family size. You will be required to repay any advance payment you receive for which you later become ineligible. For 2015, the limit is $45,960 for an individual, $62,040 for a family of two and $94,200 for a family of four. You will want to review Publication 974 and other IRS guidance.

14. IRS Reporting Duties of the IRA Custodian/Trustee. An IRA custodian has certain IRS reporting duties and certain duties to report to state revenue departments.

The IRS has adopted the administrative approach that an IRA custodian is not required to prepare a required distribution notice for an inheriting beneficiary as it must for a person who is age 70½ older. That is, the IRA custodian has no duty to inform you what your required distribution amount is. You or your accountant is responsible to calculate this amount and you will owe the 50% if you fail to take the required distribution by the appropriate deadline.

Even though not required by IRS rules, some IRA custodians as a customer/client service may furnish you a notice to remind you that as an inheriting beneficiary you must comply with the required distribution rules.

The IRA custodian does have the duty to furnish you with a fair market value statement and a Form 5498 for the inherited IRA. And the IRA custodian must furnish you a Form 1099-R to report to you and the IRS any distribution made to you from the inherited IRA.

15. IRS Reporting Duties of the IRA Accountholder and the Inheriting Beneficiary. An IRA accountholder and/or an inheriting IRA beneficiary has federal tax reporting duties. You must properly report your IRA contributions and your IRA distributions. You are to complete the following IRS tax forms as applicable: Form 1040, 1040A, 8606 (Non-deductible contributions) and 5329 (Additional taxes on IRAs and Other Tax-Favored Accounts). Form 1040 is the standard U.S. Individual Income Tax Return. Form 1040A is a shorter version of the U.S. Individual Income Tax Return as the standard deduction is used and a person may not itemize deductions. Either the Form 1040 or Form 1040A may be used by an IRA account holder to claim an IRA deduction, to report an IRA distribution and/or to claim the Retirement Savings Contribution Credit. In order for an IRA account holder or an inheriting beneficiary to report an IRA penalty tax, Form 1040 and Form 5329 must be completed. With respect to reporting an IRA distribution, the IRS has adopted the basic administrative rule that the recipient must include 100% of the distribution in his or her income and the applicable tax paid unless the recipient explains on his or Form 1040 or Form 1040A why the distribution need not be included in income. Some examples of when the distribution is not 100% taxable: return of basis, rollover, qualified HSA funding distribution, a qualified charitable distribution, the return of certain excess contributions or the return of certain current year contributions. If you are required to file

one or more of these IRS tax return forms and fail to do so, the IRA may assess a tax penalty. The same is true for an inheriting IRA beneficiary. Form 1040EZ (Income Tax Return for Single and Joint Filers With No Dependents) is not to be used to report any IRA transaction be it an annual contribution, rollover contribution, a contribution credit or any IRA distribution.

Miscellaneous

1. Approved as to Form. Your Inherited IRA has not been approved as to form for use as an Inherited IRA by the IRS.

2. Further Inherited IRA Information. You may obtain further information about Inherited IRAs from any district office of the IRS. IRS Publication 590 has a discussion of Inherited IRAs.

3. Administrative Fees or Costs. We have the right to charge service fees as indicated in Article VIII.

Summary of Contractual Terms

1. You must refer to your savings or time deposit agreement(s) for the terms which govern the investment of your Inherited IRA deposits, including an early withdrawal penalty or fee for taking a distribution prior to maturity, if applicable.
2. You have the right to designate a beneficiary or beneficiaries to inherit your Inherited IRA account. Refer to Section 1.6 of Article VIII so that you understand the rules and procedures.
3. You do not have any ability to assign your rights in this Inherited IRA.
4. We may charge fees as set forth in section 2.5 of Article VIII.
5. We may amend the terms of this Inherited IRA from time to time to comply with law changes. If we amend it for any other reason, such amendment becomes effective 30 days after we have sent our notice of amendment to you.
6. You are to refer to Article VIII for the following topics: withdrawals, withholding rules, reporting errors, changes in the Inherited IRA custodian or trustee, good faith payments, termination and resignation of the Inherited IRA custodian or trustee, withholding payments and resolution of disputes, transfer and rollovers, and payment of taxes.