ROTH IRA TRUST APPLICATION PACKET (FORM 2400R-T)

Please Print or Type

____ ____ ____ ____ ____
CUID **(Credit union will complete.)**

____ ____ ____ - ____ ____ - ____ ____ ____ ____
IRA Owner's Social Security Number

IRA Owner's Birth Date (MM/DD/YYYY) - **(required for processing)**

Account Number

IRA Owner's Name (First, Initial, Last)

Street Address

Mailing Address if Different From Street Address

City, State, ZIP

I instruct the credit union to invest this IRA in the following investment: _____

INTERNAL TRADITIONAL-TO-ROTH IRA CONVERSIONS

☐ **CHECK HERE ONLY IF BOTH OF THE FOLLOWING APPLY (DO NOT complete any other forms for this transaction):**

1. This Roth IRA is being funded by a direct transfer of the entire amount of a traditional IRA at this credit union that will no longer receive contributions. AND
2. I DO NOT WANT 10% federal income taxes withheld from my traditional IRA distribution (see next page for withholding notice). Please provide:

Amount converted to Roth IRA $_____ Suffix of Traditional IRA —— ——

If the above DOES NOT apply, leave this section blank. Then, to document the conversion, complete a "Rollover and Transfer Contributions" form for the Roth IRA and, if applicable, a "Withdrawal Instruction" form for the traditional IRA.

DESIGNATION OF BENEFICIARY (Revocable; see next page for complete instructions)

PRIMARY Beneficiary(ies) — % Column MUST total 100%

%	Name	Mailing Address	Relationship	Birth Date	SS #

SECONDARY Beneficiary(ies) — % Column MUST total 100%

%	Name	Mailing Address	Relationship	Birth Date	SS #

TERTIARY Beneficiary(ies) — % Column MUST total 100%

%	Name	Mailing Address	Relationship	Birth Date	SS #

SPOUSAL CONSENT

This section should be reviewed if either the trust or residence of the IRA owner is located in a community or marital property state and the IRA owner is married. Due to the important tax consequences of giving up one's community property interest, individuals signing this section should consult with a competent tax or legal advisor.

Current Marital Status

☐ **I Am Not Married –** I understand that if I become married in the future, I must complete a new Roth IRA Beneficiary Designation/Change form (Form 2403R).

☐ **I Am Married –** I understand that if I choose to designate a primary beneficiary other than my spouse, my spouse must sign below.

Consent of Spouse

I am the spouse of the above-named IRA owner. I acknowledge that I have received a fair and reasonable disclosure of my spouse's property and financial obligations. Due to the important tax consequences of giving up my interest in this IRA, I have been advised to see a tax professional.

I hereby give the IRA owner any interest I have in the funds or property deposited in this IRA and consent to the beneficiary designation(s) indicated above. I assume full responsibility for any adverse consequences that may result. No tax or legal advice was given to me by the Trustee.

X
Signature of Spouse Date (MM/DD/YYYY)

X
Signature of Witness Date (MM/DD/YYYY)

ACCEPTANCE OF TRUSTEE

(for credit union use only)

The credit union hereby establishes a Roth IRA for the above IRA owner under the terms of the "Credit Union Roth IRA Trust Agreement."

Credit Union Name

Credit Union Mailing Address (include street address)

City, State, ZIP

X
Authorized Credit Union Signature Date (MM/DD/YYYY)

☐ Check here if this is an amendment to an existing Roth IRA.

IRA OWNER'S SIGNATURE

I acknowledge receipt of the "Credit Union Roth IRA Disclosure Statement," which includes a financial projection table. I also accept the terms and conditions of the "Credit Union Roth IRA Trust Agreement."

X
IRA Owner's Signature Date (MM/DD/YYYY)

WHITE-ADMINISTRATOR COPY CANARY-CREDIT UNION COPY PINK-OWNER COPY

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INTERNAL TRADITIONAL-TO-ROTH IRA CONVERSIONS

WITHHOLDING NOTICE: *Payments from your IRA are subject to federal income tax withholding, unless you elect no withholding. You may change your withholding election any time prior to your receipt of a payment. Your withholding election does not affect the amount of income tax you pay. You may incur penalties under the estimated tax rules if your withholding and estimated tax payment are insufficient. Withholding from IRA payments, when combined with other withholding, MAY relieve you from payment of estimated income taxes. Note that amounts withheld will reduce the amount of the conversion contribution and may be subject to penalties.*

DESIGNATING BENEFICIARIES

General Instructions. A beneficiary can be a person, trust, charity or your estate. Write only one beneficiary on each line. Make sure that you write the full names of all beneficiaries. For example, if you name your children as beneficiaries, DO NOT merely write "children" on one of the lines; instead, write the full names of all your children on separate lines.

Order of Payment. Upon your death, your IRA will be payable to the primary beneficiaries listed unless they have predeceased you. The balance in the IRA will only be payable to the secondary beneficiaries if all primary beneficiaries have predeceased you. The IRA balance will be paid to the tertiary beneficiaries only if all primary and secondary beneficiaries have predeceased you.

Primary Beneficiaries. If you're naming only one primary beneficiary, put 100% in the "%" column. If you're naming more than one primary beneficiary, you must indicate what percentage each is to receive. The total MUST equal 100%.

If you do not assign a percentage for any primary beneficiary, then all primary beneficiaries will share equally.

Secondary Beneficiaries. If you're naming only one secondary beneficiary, put 100% in the "%" column. If you're naming more than one secondary beneficiary, you must indicate what percentage each secondary beneficiary is to receive. The total MUST equal 100%.

If you do not assign a percentage for any secondary beneficiary, then all secondary beneficiaries will share equally.

Tertiary Beneficiaries. If you're naming only one tertiary beneficiary, put 100% in the "%" column. If you're naming more than one tertiary beneficiary, you must indicate what percentage each tertiary beneficiary is to receive. The total MUST equal 100%.

If you do not assign a percentage for any tertiary beneficiary, then all tertiary beneficiaries will share equally.

Example. *Mary wants her IRA to be paid to her husband upon her death. If her husband is not alive, she wants her IRA to be paid equally to her two children. Mary would list her husband's name under the "Primary Beneficiary(ies)" section and fill in "100" in the "%" column. She would list the two children's names under the "Secondary Beneficiary(ies)" section and fill in "50" in the % column for each child.*

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CREDIT UNION ROTH IRA TRUST AGREEMENT (rev. 1/2010)

Form 5305-R under Section 408A of the Internal Revenue Code FORM (rev. March 2002).

The grantor named on the application is establishing a Roth individual retirement account under section 408A to provide for his or her retirement and for the support of his or her beneficiaries after death.

The trustee named on the application has given the grantor the disclosure statement required by Regulations section 1.408-6.

The grantor has assigned the trust account the sum indicated on the application.

The grantor and the trustee make the following agreement:

1. ANNUAL LIMIT ON CONTRIBUTIONS

Except in the case of a rollover contribution described in section 408A(e), a recharacterized contribution described in section 408A(d)(6), or an IRA Conversion Contribution, the trustee will accept only cash contributions up to $3,000 per year for tax years 2002 through 2004. That contribution limit is increased to $4,000 for tax years 2005 through 2007 and $5,000 for 2008 and thereafter. For individuals who have reached the age of 50 before the close of the tax year, the contribution limit is increased to $3,500 per year for tax years 2002 through 2004, $4,500 for 2005, $5,000 for 2006 and 2007, and $6,000 for 2008 and thereafter. For tax years after 2008, the above limits will be increased to reflect a cost-of-living adjustment, if any.

2. INCOME LIMIT ON CONTRIBUTIONS

2.1 Limits. The annual contribution limit described in Article 1 is gradually reduced to $0 for higher income levels. For a single grantor, the annual contribution is phased out between adjusted gross income (AGI) of $95,000 and $110,000; for a married grantor filing jointly, between AGI of $150,000 and $160,000; and for a married grantor filing separately, between AGI of $0 and $10,000. In the case of a conversion, the trustee will not accept IRA Conversion Contributions in a tax year if the grantor's AGI for the tax year the funds were distributed from the other IRA exceeds $100,000 or if the grantor is married and files a separate return. Adjusted gross income is defined in section 408A(c)(3) and does not include IRA Conversion Contributions.

2.2 Joint Tax Returns. In the case of a joint return, the AGI limits in the preceding paragraph apply to the combined AGI of the grantor and his or her spouse.

3. NONFORFEITABLE

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

4. INVESTMENT LIMITATIONS

4.1 No Life Insurance or Asset Commingling. 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 a common investment fund (within the meaning of section 408(a)(5)).

4.2 Restriction on Collectibles. 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.

5. DEATH BENEFITS

5.1 Death Benefit Options. If the grantor dies before his or her entire interest is distributed to him or her and the grantor's surviving spouse is not the designated beneficiary, the remaining interest will be distributed in accordance with (a) below or, if elected or there is no designated beneficiary, in accordance with (b) below:

(a) The remaining interest will be distributed, starting by the end of the calendar year following the year of the grantor's death, over the designated beneficiary's remaining life expectancy as determined in the year following the death of the grantor.

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

5.2 Minimum Required Distribution. The minimum amount that must be distributed each year under paragraph 5.1(a) above 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 designated beneficiary using the attained age of the beneficiary in the year following the year of the grantor's death and subtracting 1 from the divisor for each subsequent year.

5.3 Conversion to Spouse's IRA. If the grantor's surviving spouse is the designated beneficiary, such spouse will then be treated as the grantor.

6. REPORTING

6.1 Grantor Will Provide Information. The grantor agrees to provide the trustee with all information necessary to prepare any reports required by sections 408(i) and 408A(d)(3)(E), Regulations sections 1.408-5 and 1.408-6, or other guidance published by the Internal Revenue Service (IRS).

6.2 Trustee Will Submit Reports. The trustee agrees to submit to the IRS and grantor the reports prescribed by the IRS.

7. CONTROLLING TEXT

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles 1 through 4 and this sentence will be controlling. Any additional articles inconsistent with section 408A, the related regulations, and other published guidance will be invalid.

8. AMENDMENT

This agreement will be amended as necessary to comply with the provisions of the Code, the related regulations, and other published guidance. Other amendments may be made with the consent of the persons whose signatures appear on the application form.

9. GENERAL PROVISIONS

9.1 Beneficiaries. If the grantor dies before receiving all of the amounts in his or her IRA, payments from the IRA will be made to the grantor's beneficiaries. If the grantor directs that payment be made under the grantor's will, then this will be treated as a designation of the grantor's estate as a beneficiary.

If the grantor's surviving spouse is the designated beneficiary, the spouse may elect to treat the grantor's Roth IRA as his or her own Roth IRA, and would not be subject to the required minimum distribution rules. The grantor's surviving spouse will also be entitled to such additional beneficiary payment options as are granted under the Code or applicable Regulations.

The trustee may allow, if permitted by state law, an original IRA beneficiary(ies) (the beneficiary(ies) who is entitled to receive distribution(s) from an inherited IRA at the time of the grantor's death) to name a successor beneficiary(ies) for the inherited IRA. This designation can only be made on a form provided by or acceptable to the trustee, and it will only be effective when it is filed with the trustee during the original IRA beneficiary's(ies') lifetime. Unless otherwise specified, each beneficiary designation form that the original IRA beneficiary(ies) files with the trustee will cancel all previous ones. The consent of a successor beneficiary(ies) shall not be required for the original IRA beneficiary(ies) to revoke a successor beneficiary(ies) designation. If the original IRA beneficiary(ies) does not designate a successor beneficiary(ies), his or her estate will be the successor beneficiary. In no event shall the successor beneficiary(ies) be able to extend the distribution period beyond that required for the original IRA beneficiary.

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9.2 Absence of a Beneficiary. If none of the beneficiaries survive the grantor, or if the trustee has not received a beneficiary designation form from the grantor, then the grantor's IRA will be paid as follows:

(a) Everything to the grantor's spouse; or

(b) If the grantor is not survived by a spouse, then everything equally to the grantor's legitimate natural and legally adopted children; or

(c) If the grantor is not survived by a spouse or any children, then everything to the grantor's estate. A person or estate entitled to receive money under this section will be treated as a beneficiary for purposes of Article 5.

9.3 Forms, Notices, and Reports. The grantor will mail notices to the trustee or to an agent specified by the trustee. The grantor will notify the trustee of any change in name or address. The trustee may require the grantor and beneficiaries to use the trustee's forms. A copy of the grantor's application when attached to a copy of this agreement (including amendments) will be considered an original agreement. A copy on carbonless paper or a photographic reproduction of any document used to administer this IRA will be admissible as evidence in any judicial or administrative proceeding as if it were the original itself. The trustee will mail notices and reports to the grantor or beneficiaries at the last known address according to its records. The grantor agrees to examine each report received from the trustee and immediately notify the trustee of any information in a report that does not appear to be correct. If the trustee does not receive such a notification within 60 days after mailing the report, it may treat the information contained in the report as accurate for all purposes.

9.4 Trustee's Liability. The trustee will not be liable for any loss or damage unless it is caused by a violation of an express provision of this agreement, or by a lack of good faith in acting in compliance with this agreement.

9.5 Trustee's Services. The trustee may charge reasonable fees for its services, and deduct such fees from the assets of the IRA. The trustee may establish reasonable administrative deadlines prior to the tax deadline for the grantor and beneficiaries to file payment selections. If the trustee does not receive a payment selection prior to its administrative deadline, it may make payment as provided in this agreement. The trustee may offer the option of dividing annual payments into several more frequent payments.

9.6 Amendments. The trustee has the right to amend this agreement at any time. Any amendment the trustee makes to comply with the Code and related regulations does not require the grantor's consent. The grantor, or his or her beneficiary upon the grantor's death, will be deemed to have consented to any other amendment unless, within 30 days from the date the trustee mails the amendment, the grantor or the beneficiary notifies the trustee in writing that they do not consent.

9.7 Change of Trustee. If the trustee changes its name, reorganizes, merges with another organization (or comes under the control of any federal or state agency), or if the trustee (or any portion of the organization which includes this IRA) is bought by another organization, that organization (or agency) shall automatically become the trustee or custodian of this IRA, but only if it is the type of organization authorized to serve as an IRA trustee or custodian.

A successor trustee will have all of the same duties and rights granted to the original trustee under this agreement. A successor trustee will not be liable for any act or omission of a predecessor trustee.

If the trustee is required to comply with Regulations section 1.408-2(e), and fails to do so, or the trustee is not keeping the records, making the returns or sending the statements as are required by forms or Regulations, the IRS may, after notifying the grantor, require the grantor to substitute another trustee or custodian.

9.8 Termination. The trustee may terminate this IRA upon 30 days notice to the grantor. In such event this IRA will be paid out to the grantor, unless during this 30-day period the grantor instructs the trustee to transfer it directly to another IRA.

9.9 Security Interest Waiver. The trustee waives the provisions of any written contract that grants it a security interest in this IRA.

9.10 Controlling Law. This agreement is subject to all applicable federal and state laws and regulations. If it is necessary to apply any state law to interpret and administer this agreement, the law of the trustee's domicile shall govern.

9.11 Disclosure of Account Information. The trustee may use third-party service providers to assist in administering the IRA. The trustee may release nonpublic personal information regarding the IRA to third-party service providers as necessary to provide the products and services made available under this agreement, and to evaluate the trustee's business operations and analyze potential product, service, or process improvements.

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CREDIT UNION ROTH IRA TRUST AGREEMENT (continued)

General Instructions.

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form. Form 5305-R is a model trust account agreement that meets the requirements of section 408A and has been pre-approved by the IRS. A Roth individual retirement account (Roth IRA) is established after the form is fully executed by both the individual (grantor) and the trustee. This account must be created in the United States for the exclusive benefit of the grantor and his or her beneficiaries.

Do not file Form 5305-R with the IRS. Instead, keep it with your records.

Unlike contributions to traditional individual retirement arrangements, contributions to a Roth IRA are not deductible from the grantor's gross income; and distributions after 5 years that are made when the grantor is 59½ years of age or older or on account of death, disability, or the purchase of a home by a first-time homebuyer (limited to $10,000), are not includible in gross income. For more information on Roth IRAs, including the required disclosures the trustee must give the grantor, see Pub. 590, *Individual Retirement Arrangements (IRAs)*.

Definitions.

IRA Conversion Contribution. IRA conversion contributions are amounts rolled over, transferred, or considered transferred from a nonRoth IRA to a Roth IRA. A nonRoth IRA is an individual retirement account or annuity described in section 408(a) or 408(b), other than a Roth IRA.

Trustee. The trustee must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as trustee.

Grantor. The grantor is the person who establishes the trust account.

Specific Instructions.

Article 1. The grantor may be subject to a 6% tax on excess contributions if (1) contributions to other individual retirement arrangements of the grantor have been made for the same tax year, (2) the grantor's adjusted gross income exceeds the applicable limits in Article 2 for the tax year, or (3) the grantor's and spouse's compensation is less than the amount contributed by or on behalf of them for the tax year. The grantor should see the disclosure statement or Pub. 590 for more information.

Article 5. This article describes how distributions will be made from the Roth IRA after the grantor's death. Elections made pursuant to this article should be reviewed periodically to ensure they correspond to the grantor's intent. Under paragraph 3 of Article 5, the grantor's spouse is treated as the owner of the Roth IRA upon the death of the grantor, rather than as the beneficiary. If the spouse is to be treated as the beneficiary, and not the IRA owner, an overriding provision should be added to Article 9.

Article 9. Article 9 and any that follow it may incorporate additional provisions that are agreed to by the grantor and trustee to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the trustee, trustee's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the grantor, etc. Attach additional pages if necessary.

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CREDIT UNION ROTH IRA DISCLOSURE STATEMENT (rev. 1/2010)

This publication discusses Roth individual retirement accounts ("Roth IRAs") in general, and your credit union-sponsored Roth IRA in particular. This publication only discusses the federal tax rules, and you should consult your tax advisor concerning the tax laws of your state. Your credit union is referred to as "we" in this document.

There are two types of IRAs. The original IRAs were created in 1974, and these are called "traditional IRAs." This document primarily discusses the second type, created by Congress in 1997 and called "Roth IRAs." Traditional IRAs are discussed in this document only to the extent they relate to Roth IRAs. Many rules are the same for both traditional and Roth IRAs, and the discussion of these rules will refer simply to "IRAs." For more information about traditional IRAs, ask for the Credit Union Traditional IRA Disclosure Statement.

1. CAN I REVOKE MY ROTH IRA AFTER I HAVE SIGNED THE APPLICATION?

Right to Revoke. You can revoke an IRA within seven days after you receive this disclosure statement (except that you cannot revoke your IRA if you received this disclosure statement seven or more days before you set up your IRA). We are required to report to the IRS the contribution to and distributions from a revoked IRA.

How to Revoke. You can revoke an IRA by calling us, writing to us, or stopping by our office. Calls should be placed during normal business hours. Mailed notices are timely if postmarked within the seven-day period. If you revoke your IRA, the entire amount of any contributions you have made will be returned to you.

2. HOW MUCH CAN I CONTRIBUTE TO A ROTH IRA?

There are three limits on the regular contributions you can make for a year to a Roth IRA. Your regular Roth IRA contributions are limited to the lowest of these limits that applies to your situation. All regular contributions for the same year to all of your Roth IRAs must be combined for purposes of meeting the contribution limits. A regular Roth IRA contribution is any contribution that does not qualify as a direct transfer, rollover, or IRA conversion contribution.

(a) Compensation Limit. In general, your total regular IRA contributions for a year (both to Roth and traditional IRAs) cannot exceed the amount of your compensation earned during that year. If you file a joint federal income tax return and earn less compensation than your spouse, you can treat as compensation the joint compensation of you and your spouse, less the IRA contributions made by your spouse. Your "compensation" for a year is the total taxable income you receive during the year for performing services or that you receive as taxable alimony or separate maintenance payments. Amounts excluded from taxable income are generally not treated as compensation. The only exception is that all combat pay earned by military personnel is treated as compensation, even though most combat pay is not taxable. Compensation does not include income from property, such as interest, dividends, rent, or capital gains. You compute your earnings from performing services by adding:

- The wages, salary, tips, bonuses, professional fees, consulting fees, and other amounts you receive for providing personal services as an employee (you can use the amounts shown in the "wages, tips, other compensation" box of the IRS Forms W-2 that you receive); plus
- The net income from a business you own and operate as a sole proprietor or your share of partnership income, but only if you actively provide services in connection with the business.

(b) Annual Contribution Limit. Your regular Roth IRA contributions for a year cannot exceed the annual contribution limit (which is the amount stated in the following table), minus your regular contributions to traditional IRAs for the year. The annual contribution limit is higher starting with the year in which you reach age 50. For example, if you reach age 50 by December 31, 2007, your 2007 annual contribution limit for all IRAs is $5,000. But if you make $1,000 of 2007 regular contributions to traditional IRAs, then your 2007 Roth IRA contributions cannot exceed $4,000. This is true regardless of the order in which you made the contributions. A regular traditional IRA contribution is any contribution that does not qualify as a direct transfer, rollover, direct rollover, SEP or SIMPLE contribution.

Contributions For	Under Age 50	Age 50+
2006 – 2007	$4,000	$5,000
2008	$5,000	$6,000

In 2009 and later years, the $5,000 annual contribution limit for individuals under age 50 will be subject to adjustment for inflation occurring after 2007. The annual contribution limit for individuals age 50 or older will be $1,000 more than the adjusted amount for individuals under age 50.

(c) Income Limit. The maximum amount of your regular Roth IRA contributions is phased out based on the amount of your modified adjusted gross income (MAGI).

- **Single Person.** Regular Roth IRA contributions for 2006 are phased out between $95,000 and $110,000 of MAGI. The phase-out range for 2007 contributions is $99,000 to $114,000. The phase-out range for each subsequent year will be adjusted for inflation. This rule applies to anyone who is not married at the end of the year, including those filing as heads of household.
- **Married Filing Jointly.** Regular Roth IRA contributions for 2006 are phased out between $150,000 and $160,000 of joint MAGI. The phase-out range for 2007 contributions is $156,000 to $166,000. The phase-out range for each subsequent year will be adjusted for inflation.
- **Married Filing Separately.** Regular Roth IRA contributions are phased out between zero and $10,000 of MAGI for all years.

MAGI Definition. For purposes of determining whether a regular Roth contribution can be made, "modified adjusted gross income" (or "MAGI") is computed by starting with adjusted gross income (the last line on the first page of IRS Form 1040) without taking into account: (a) income from converting a traditional IRA into a Roth IRA, (b) deductions for making traditional IRA contributions, and (c) certain foreign income, foreign housing exclusions, and series EE bond interest.

Contribution Phase-Out. The income limit does not apply to you if your MAGI is below the bottom of the phase-out range. You are not able to make regular Roth IRA contributions if your MAGI is above the top of the phase-out range.

To compute the MAGI limit within a phase-out range, start by subtracting the bottom of the phase-out range from your MAGI. Divide the answer from this subtraction by $10,000 for a married person or $15,000 for a single person. Then multiply the answer from this division by the annual contribution limit (the amount stated in the above chart). Round the answer from this multiplication down to the next lower $10. Subtract this rounded amount from the annual contribution limit. The answer is the amount you can contribute unless the answer is between zero and $200, in which case you can contribute $200.

3. WHEN CAN I MAKE REGULAR CONTRIBUTIONS?

You can make regular IRA contributions up until the time prescribed by law for filing the tax return for the year, not including filing extensions. If you report income on a calendar tax year basis, the deadline for making a regular IRA contribution for a year is April 15 of the following year. If April 15 is a weekend or a legal holiday at the address to which you mail your federal tax return, then the deadline is the next business day. You can make a regular IRA contribution before this deadline even if you have already filed your tax return for the year. There is no special time during this period for making a regular IRA contribution. You can make regular IRA contributions periodically during the year, or in a single contribution for the year.

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4. CAN I MOVE ASSETS FROM A TRADITIONAL IRA TO A ROTH IRA?

IRA Conversion Contribution Requirements. Starting in 2010, anyone will be able to make an IRA conversion contribution, regardless of income or filing status. During 2009 and earlier years, only people who file a single return or a joint return and have modified adjusted gross income (MAGI) of $100,000 or less can make an IRA conversion contribution. If you file a joint income tax return with your spouse, then this limit is joint MAGI of not more than $100,000. For purposes of determining whether an IRA conversion contribution can be made, MAGI has the same definition as described in answer 2, except that income from required minimum distributions from traditional IRAs is disregarded. You cannot make an IRA conversion contribution in one year based on meeting the requirements in the previous year.

Funding Source for Traditional IRA. If you have an interest as a beneficiary in a traditional IRA that you received as the result of someone else's death, then your death benefits cannot be moved to a Roth IRA. The assets in a SIMPLE IRA funded under a SIMPLE plan cannot be moved until after the end of the 2-year period that begins with the date you first participated in the plan. With these two exceptions, the assets in any other traditional IRA can be moved to a Roth IRA in any year in which you meet the tests described in the preceding paragraph.

Can be Mixed With Regular Contributions. The assets in a traditional IRA can be moved to a Roth IRA to which regular contributions have been made. There is no tax advantage in keeping regular contributions and IRA conversion contributions in separate Roth IRAs.

Creates Taxable Income. An IRA conversion contribution creates taxable income. This is true whether you use a direct transfer or rollover. The 10% early distribution tax does not apply even if you are under age 59½. The portion that the tax laws attribute to your traditional IRA basis is the only portion that is not taxable. You get a traditional IRA basis by making a nondeductible traditional IRA contribution or by transferring to an IRA after-tax employee contributions that you made to a qualified retirement plan. For transactions occurring in 2010, unless a taxpayer elects otherwise, the amount includible in gross income as a result of the transaction will be taxed one-half in 2011 and one-half in 2012.

Direct Transfers. You can make an IRA conversion contribution by having the assets directly transferred between the IRAs. You do this by instructing the fiduciary of your traditional IRA to direct transfer the assets to the fiduciary of your Roth IRA. You must set up a Roth IRA before you can direct transfer assets into it. The two IRAs can be administered by the same fiduciary. The "fiduciary" is the trustee, custodian, or insurance company that issues the IRA.

Rollovers. You can make an IRA conversion contribution by withdrawing the assets from your traditional IRA and contributing part or all of the distribution to your Roth IRA. You can do this only if both of these tests are met:

- 60-Day Rule
- Distribution of Property

See the discussion of these rules in answer 8 for more information.

5. CAN I MOVE ASSETS BETWEEN A QRP AND A ROTH IRA?

From a Designated Roth Account. Some qualified retirement plans (QRPs) let a participant make contributions to a designated Roth account. The contribution used to make these contributions is subject to income tax in the year of the contribution. An eligible rollover distribution from a designated Roth account can be moved to a Roth IRA using either a direct rollover or a rollover. This can be done even if the owner is not eligible to convert money from a traditional IRA to the Roth IRA in that year.

By Former Spouse or Surviving Spouse. The former spouse or surviving spouse of a QRP participant who has a designated Roth account can move an eligible rollover distribution to a Roth IRA by using either a direct rollover or a rollover. A former spouse should not start such a transaction until a qualified domestic relations order has been entered.

To Roth IRA in the Name of a Deceased Employee. Following the death of a QRP participant who has a designated Roth account, any beneficiary can use a direct rollover to move an eligible rollover distribution of the death benefits to a Roth IRA in the name of the deceased employee, for the benefit of the beneficiary. Starting in the year after the transaction, the beneficiary must receive a required minimum distribution (RMD) each year computed in the same manner as the RMD for the distributing QRP.

From a Traditional QRP. Effective for distributions made in 2008 and later years, a participant in a QRP other than a designated Roth account (which we refer to as a traditional QRP) can move an eligible rollover distribution from the QRP to a Roth IRA using a direct rollover if the owner meets the requirements that must generally be met to make an IRA conversion contribution (see answer 4).

A direct rollover from a traditional QRP to a Roth IRA creates taxable income. The 10% early distribution tax does not apply even if you are under age 59½. The portion that the tax laws attribute to your after-tax contributions is the only portion that is not taxable. You make after-tax contributions to a traditional QRP by instructing your employer to make payroll contributions out of funds that are included in your taxable income. For transactions occurring in 2010, unless a taxpayer elects otherwise, the amount includible in gross income as a result of the transaction will be taxed one-half in 2011 and one-half in 2012.

If you are a spouse, nonspouse, or qualified trust beneficiary who has inherited a traditional QRP, you may be eligible to directly roll over the assets to an inherited Roth IRA. The inherited Roth IRA is subject to the beneficiary distribution requirements. Roth IRA conversion rules, as described in section 4, will also apply to rollovers by beneficiaries, including the requirement to include the taxable portion in income in the year distributed.

Eligible Rollover Distribution Defined. An eligible rollover distribution is any distribution that is <u>not</u> (a) one of a series of substantially equal periodic payments made over your single or joint lifetime or life expectancy, or over a specified period of 10 or more years, (b) a required minimum distribution (RMD), or (c) a hardship distribution. The administrator of your QRP is required to tell you when a distribution is an eligible rollover distribution.

Direct Rollovers. You can move an eligible rollover distribution from a QRP to a Roth IRA by using a direct rollover. You do this by instructing the administrator of the QRP to direct transfer the distribution to the fiduciary of your Roth IRA. You should set up the Roth IRA that will receive the funds before you start a direct rollover. The "fiduciary" is the trustee, custodian, or insurance company that issues your IRA.

Rollovers. You <u>may</u> use a rollover to move an eligible rollover distribution from a designated Roth account or traditional QRP to a Roth IRA. The QRP administrator must withhold 20% for federal income taxes from an eligible rollover distribution. However, you can still roll over 100% of the eligible rollover distribution by using funds from some other source to make up for the 20% that was withheld. You can make a rollover contribution only if both of these tests are met:

- You must contribute the money to a Roth IRA within 60 days after you receive the distribution. The 60-day period is extended if the money cannot be withdrawn from a financial institution because it is in financial trouble, or if the deadline is missed solely because of the error of a financial institution. You may be able to obtain an IRS waiver if applying the 60-day deadline would be against equity or good conscience, including due to casualty, disaster, or other events beyond your reasonable control.

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- If property is received, you can sell any portion of the property and contribute the proceeds to an IRA within 60 days after you receive the property. If you don't roll over everything you received, you may designate which property is to be treated as included in the rollover contribution. The tax laws also allow the property itself to be contributed (please check with us to see if we can accept a contribution of property).

See the discussion of these rules in answer 8 for more information.

Cannot Move Assets From Roth IRA to QRP. A distribution from a Roth IRA cannot be moved to a QRP.

6. WHAT OTHER RULES CONTROL MY ROTH IRA CONTRIBUTIONS?

No Tax Deduction. You can never deduct Roth IRA contributions when computing your income taxes.

No Age Limitation. Contributions can be made at any age.

Saver's Tax Credit. A tax credit is available for qualified retirement contributions by low- and middle-income taxpayers. The credit is reduced by certain distributions received from retirement plans. The amount of the credit cannot exceed the amount of federal income tax that the taxpayer would otherwise pay. The credit is determined by multiplying IRA and other retirement contributions up to $2,000 by the percentage that applies to the taxpayer's adjusted gross income for the year.

A married person who files a joint tax return can receive this tax credit with joint income up to $50,000 in 2006 or $52,000 in 2007. The head of a household can receive this tax credit with income up to $37,500 in 2006 or $39,000 in 2007. All other taxpayers can receive this tax credit with income up to $25,000 in 2006 or $26,000 in 2007. The income limits will be indexed for inflation for subsequent years.

Direct Deposit of Tax Refunds. You may instruct the IRS to deposit your tax refund into your Roth IRA. If you file a joint return, you and your spouse may each give a separate instruction. These deposits are treated as regular Roth IRA contributions.

Cash Contributions Required. Regular IRA contributions must be made in cash (currency, checks, etc.). Contributions of stock or other property are not allowed.

Community and Marital Property Laws. Community and marital property laws are disregarded for purposes of determining Roth contributions. You and your spouse must meet the qualifications for contributions individually, except for the spousal contribution rules described in answer 2(a).

Beneficiary Accounts. If you have an interest in a Roth IRA that you received as the result of someone else's death, and you were not married to that person at the time of death, then you may not make any contributions (including rollovers and direct rollovers) to that Roth IRA.

Recharacterizing a Contribution. Under certain circumstances, you can treat a contribution to a Roth IRA as if you made it to a traditional IRA, or you can treat a contribution to a traditional IRA as if you made it to a Roth IRA. This can be done to correct an excess contribution situation, although you can also recharacterize a contribution that is not an excess contribution. To recharacterize a contribution you must be able to make the contribution as it has been recharacterized. For example, if a contribution to a Roth IRA is an excess contribution but it would be a permitted contribution to a traditional IRA, then you can recharacterize it as a contribution to a traditional IRA. To recharacterize a contribution you must give special notice to the fiduciaries of both IRAs. This notice includes notification that you intend to recharacterize the contribution along with instructions to direct transfer the amount of the contribution. The income attributable to the contribution must also be transferred, and you must use an IRS formula to compute the income attributable.

Withdrawing a Contribution. You can withdraw most contributions without paying any income tax. But you cannot withdraw direct transfer contributions. You can withdraw both excess contributions and contributions that are permitted by the tax laws. The withdrawal of an IRA conversion contribution can result in the imposition of the 10% early distribution tax (see answer 10). The 6% excess contribution tax is not imposed if you withdraw an excess contribution under the first rule described below, but it is imposed under the second rule.

- **Withdraw With Income by Deadline.** You can withdraw any contribution, other than a direct transfer, without paying income tax on the withdrawal. You can withdraw a contribution to correct an excess contribution situation, although you can also withdraw a contribution that is not an excess contribution. You can withdraw a contribution under this rule until the deadline described below. You must also withdraw the income attributable to the contribution, and you must use an IRS formula to compute the income attributable. The income attributable is subject to income tax, and it is also subject to the 10% early distribution tax if you are under age 59½ at the time of withdrawal and none of the exceptions discussed in answer 10 apply. The 6% excess contribution tax does not apply to the contribution that is withdrawn.
- **Withdraw After Deadline.** You can withdraw a contribution after the deadline described below without paying income tax. If it was an excess contribution, you will owe the 6% excess contribution tax for the year for which the contribution was made and each subsequent year that ends before the excess is withdrawn. Do not withdraw the income attributable under this approach.

Normal Deadline to Withdraw or Recharacterize a Contribution. You can withdraw or recharacterize a contribution and the income attributable to it until the deadline for filing your federal tax return for the year for which the contribution was made. If you file your federal income tax return on a calendar year basis and do not apply for an extension, then the normal deadline is April 15. If April 15 is a weekend or a legal holiday at the address to which you mail your federal tax return, then the deadline is the next business day. If you apply for a filing extension, then the normal deadline is the end of the filing extension period.

Possible Six-Month Extension. If you filed your federal income tax return on time for the year, then your deadline is automatically extended for six months after the deadline for filing your federal tax return for the year (not including any filing extensions for which you have applied). For example, if you filed your return by your tax filing deadline of April 15, then you can withdraw or recharacterize a contribution and its income until October 15. If you withdraw or recharacterize a contribution and its income during this six-month period, then you must file an amended federal return reflecting the tax effects of the transaction within three years after your filing deadline. You must write "Filed pursuant to section 301.9100-2" at the top of your amended return.

7. WHAT IF I CONTRIBUTE TOO MUCH?

Recharacterizing a Contribution. You may be able to treat a contribution to a Roth IRA as if you made it to a traditional IRA, or treat a contribution to a traditional IRA as if you made it to a Roth IRA. See "Recharacterizing a Contribution" in answer 6 for more details.

Withdrawing a Contribution. You may be able to withdraw a Roth IRA contribution without paying any tax. See "Withdrawing a Contribution" in answer 6 for more details.

Excess Contribution Tax. Excess contributions that are not recharacterized or withdrawn as described above are subject to a nondeductible 6% excess contribution tax for the year for which the contribution was made and each year thereafter until the excess is eliminated. This tax is imposed each year that ends with the excess contribution still in the IRA. The excess contribution is reduced (until it is eliminated) by:

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- The excess of the maximum regular contribution allowed in any future year over the amount actually contributed; or
- The amount of any distribution you receive (other than a distribution that is subsequently rolled over).

Apply the Excess to a Future Year. Excess contributions are considered regular contributions, regardless of your original intention when you made the contribution. The tax laws automatically apply an excess Roth IRA contribution as a regular Roth IRA contribution for the first year for which you make less than the maximum regular Roth IRA contributions. For example, if you make regular Roth IRA contributions this year that are less than the maximum you can make, then an excess Roth IRA contribution you made for last year will be treated as a regular Roth IRA contribution for this year up to the difference between your contributions and the maximum. You would have to pay the 6% tax described in the preceding paragraph for last year.

Contributions in Prior Years. Contributions in prior years of less than the maximum amount may not be used to reduce the excess contribution in a later year.

8. CAN I MOVE MONEY FROM ONE ROTH IRA TO ANOTHER?

Direct Transfer. You can move money between Roth IRAs by having the assets directly transferred between the IRAs. You do this by instructing the fiduciary of your Roth IRA to direct transfer the money to the fiduciary of another Roth IRA in your name. You should set up the Roth IRA that will receive the direct transfer before you start the direct transfer. The "fiduciary" is the trustee, custodian, or insurance company that issues the IRA. A direct transfer can be made without worrying about the once-a-year rule, and a direct transfer does not count as a rollover for purposes of applying the once-a-year rule to a later rollover.

Rollovers. You can move money between Roth IRAs by withdrawing the money from your Roth IRA and contributing part or all of the distribution to the same or another Roth IRA in your name. You can roll over a distribution only if you meet these tests:

- **60-Day Rule.** You must contribute the money to a Roth IRA within 60 days after you receive the distribution. The 60-day period is extended if the money cannot be withdrawn from a financial institution because it is in financial trouble, or if the deadline is missed solely because of the error of a financial institution. You may be able to obtain an IRS waiver if applying the 60-day deadline would be against equity or good conscience, including due to casualty, disaster, or other events beyond your reasonable control.
- **Once-a-Year Rule.** A Roth IRA distribution cannot be rolled over if any other distribution from the same Roth IRA has been rolled over during the preceding 365 days.
- **First-Time Home Buyer Exception.** If the first-time home buyer rules described in answer 10 would apply except for the fact that there was a delay or cancellation of the home purchase, then you have until 120 days after you receive the withdrawal to contribute the money to a Roth IRA as a rollover. Such a rollover is not subject to the once-a-year rollover rule, and it is not treated as a rollover in applying this rule to subsequent rollovers.
- **Distribution of Property.** If you receive property in the distribution, then you must contribute the property itself. Please check with us to see if we can accept a contribution of property.

Divorce. A Roth IRA owner may be required to distribute part or all of a Roth IRA to his or her former spouse as part of a divorce or legal separation. A direct transfer from the owner's Roth IRA to a Roth IRA owned by the former spouse can be done tax-free, provided it is done according to the terms of the divorce decree or a written instrument incident to the divorce.

Death Benefits. Death benefits can be moved as follows:

- **Surviving Spouse to Spouse's Own IRA.** If your surviving spouse is the sole beneficiary of your entire Roth IRA, your spouse will be deemed to elect to treat your Roth IRA as his or her own by either (1) making contributions to your Roth IRA, or (2) failing to timely remove a required minimum distribution from your Roth IRA. A surviving spouse who receives death benefits from his or her deceased spouse's Roth IRA may also direct transfer the death benefits to a Roth IRA in the surviving spouse's name. Alternatively, a rollover may be used. This is treated like any other rollover, and it must meet the rollover tests described above.
- **To an IRA in the Owner's Name.** Any beneficiary may set up a new Roth IRA in the name of the deceased owner for the benefit of the beneficiary and use a direct transfer to move the money into this new IRA. The IRA that receives this direct transfer is required to make the same required minimum distributions as the decedent's IRA was required to make. A non-spouse beneficiary is not allowed to roll over or direct transfer the death benefits to an IRA in the beneficiary's name. Such a beneficiary is also prohibited from making any contributions (including rollovers and direct rollovers) to an IRA from which death benefits are payable.

No Income Limits. There are no income restrictions on your ability to move assets from one Roth IRA to another Roth IRA.

9. CAN I RECEIVE DISTRIBUTIONS WITHOUT PAYING ANY TAX?

Tax-Free Transactions. The following transactions do not result in taxable income:

- A rollover or direct transfer from one Roth IRA to another (see answer 8);
- Recharacterizing a contribution (see answer 6);
- Withdrawals of contributions (see answer 6); and
- Qualified distributions (see below).

While these distributions are not subject to any tax, you may be subject to the 6% excess contribution tax if an excess was in your IRA at the end of a year.

Qualified Distributions. A distribution from a Roth IRA is not subject to any tax if it is a qualified distribution. This is a distribution that meets both of these tests:

- **Qualified Reason Test.** A distribution meets the qualified reason test if:
  1) It is received after the owner attained age 59½; or
  2) It is a qualified first-time home buyer distribution (described in answer 10); or
  3) It is received after the owner became disabled (defined in answer 10); or
  4) It is received after the owner's death.
- **5-Year Waiting Period Test.** The distribution must also be made after the end of the 5-year waiting period. This period begins on January 1 of the first year in which the owner made either a regular Roth contribution or an IRA conversion contribution (the movement of money from a traditional IRA to a Roth IRA). If the first regular Roth IRA contribution is made early in one year and attributed to the prior year, then this is treated as a contribution in the prior year.

10. HOW ARE OTHER DISTRIBUTIONS TAXED?

Earnings Subject to Income Tax. The tax laws treat all of your Roth IRAs as one IRA for purposes of taxing distributions. A distribution from a Roth IRA is not subject to income tax to the extent it is treated as a return of your contributions. Distributions are treated as first being attributable to your regular contributions and then to your IRA conversion contributions. After all of your contributions have been distributed, any distribution that is not a qualified distribution is subject to income tax in the year in which you receive the distribution.

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May be Subject to 10% Early Distribution Tax. The portion of a Roth IRA distribution that is subject to income tax is also subject to a 10% early distribution tax unless one of the these exemptions is applicable:

- **Age 59½.** If you have reached age 59½, then distributions are not subject to any tax if you meet the 5-year waiting period test. If you don't meet the 5-year waiting period test, then the portion of the distribution that represents the income earned in the Roth IRA is subject to income tax, but this income is exempt from the 10% early distribution tax. You reach age 59½ six months after your 59th birthday.
- **First-Time Home Buyers.** If you qualify for the first-time home buyer exemption, then a distribution is not subject to any tax if you meet the 5-year waiting period test. If you don't meet the 5-year waiting period test, then the portion of the distribution that represents the income earned in the Roth IRA is subject to income tax, but it is exempt from the 10% early distribution tax. The first-time home buyer exemption applies to a distribution up to the amount of qualified acquisition costs (including customary settlement, financing, or other closing costs) to buy or build the principal residence of a first-time home buyer. You have a $10,000 lifetime limit under this exception, and this is a single lifetime limit that is applied to the total distributions from both your Roth and traditional IRAs. You and your spouse can use both of your lifetime limits to withdraw up to $20,000. The money must be used for this purpose within 120 days after you receive the distribution. The first-time home buyer can be you, your spouse, or the child, grandchild, or ancestor of you or your spouse. A person is a "first-time home buyer" if neither the person nor the person's spouse has had an ownership interest in a principal residence during the 2-year period ending on the date of acquisition of the principal residence for which the withdrawal is being made.
- **Disability.** If you are disabled, then the distribution is not subject to any taxes if you meet the 5-year waiting period test. If you do not meet the 5-year waiting period test, then the portion of the distribution that represents the income earned in the Roth IRA is subject to income tax, but the income is exempt from the 10% early distribution tax. The tax laws define "disability" as being unable to engage in any substantial gainful activity by reason of any medically determined physical or mental impairment that can be expected to result in death, or to be of long-continued and indefinite duration.
- **Death Benefits.** If the beneficiary of a Roth IRA following the owner's death meets the 5-year waiting period test, then the distribution is not subject to any taxes. If the 5-year waiting period test has not been met, then the portion of the distribution that represents the income earned in the Roth IRA is subject to income tax, but the income is exempt from the 10% early distribution tax.
- **Higher Education Expenses.** Distributions up to the amount of "qualified higher education expenses" paid during the year are exempt from the 10% early distribution tax (but may be subject to income tax). These expenses are the tuition, fees, books, supplies, and equipment required for enrollment or attendance at a post-secondary educational institution (a college or vocational school). These expenses must be incurred for the education of you, your spouse, your child, your grandchild, or your spouse's child or grandchild. While elementary and secondary educational expenses can now be funded by Coverdell ESAs, only higher education expenses are exempt from the 10% early distribution tax.
- **Large Medical Expenses.** Distributions up to the amount you can claim as an income tax deduction for medical expenses for the year are exempt from the 10% early distribution tax (but may be subject to income tax). The medical expenses can be for the owner, the owner's spouse, or any person properly listed on the owner's tax return as a dependent. If the owner files a joint income tax return, then medical expenses include those paid for these people by the owner's spouse. Expenses that are reimbursed by insurance cannot be counted. Expenses reimbursed out of funds created by a reduction in the owner's paycheck do count. This exception applies whether or not the owner itemizes income tax deductions.
- **Medical Insurance During Unemployment.** If you are unemployed and have received unemployment compensation for 12 consecutive weeks under any federal or state unemployment compensation law, then distributions up to the amount of the medical insurance premiums you pay during the year are exempt from the 10% early distribution tax (but may be subject to income tax). This rule applies for the year that you receive the unemployment compensation and for the next year; except that it no longer applies to distributions you receive after you have become re-employed for at least 60 days. If you were self-employed, then this rule applies if you would have received unemployment compensation but for the fact that you were self-employed.
- **Federal Tax Levy.** Distributions to the U.S. Government in response to a federal tax levy are exempt from the 10% early distribution tax.
- **Qualified Reservist Distributions.** If you are a qualified reservist called to active duty, you may be eligible to take penalty-free distributions from your Roth IRA.
- **Early Withdrawal Penalty.** The 10% early distribution tax is not imposed on the premature withdrawal penalty charged by your credit union.

Distribution Within 5 Years of IRA Conversion Contribution. A Roth distribution that meets one of the exemptions described above is never subject to the 10% early distribution tax. But if (1) a Roth IRA distribution does not meet any of these exemptions, (2) it is allocable to an IRA conversion contribution, and (3) the distribution occurs within 5 tax years after the IRA conversion contribution is made, then the 10% early distribution tax applies to all or part of the distribution of the contribution. There is a separate 5-year waiting period for each IRA conversion contribution, and it begins on January 1 of the year in which the IRA conversion contribution is received by the Roth IRA.

Source of Distributions. The tax laws treat distributions from Roth IRAs as being allocable first to regular Roth IRA contributions, second to IRA conversion contributions in the order in which they are made, and third to earnings. If only a portion of an IRA conversion contribution was subject to income tax in the year the money was withdrawn from the traditional IRA, then distributions allocated to the contribution are first allocated to that portion. The only exceptions to these allocation rules are for a recharacterized contribution or a contribution that is withdrawn along with its income attributable (see answer 6).

11. HOW WILL I RECEIVE MY RETIREMENT BENEFITS?

No Required Minimum Distributions. We will offer you several options to receive periodic payments from your Roth IRA. But unlike traditional IRAs, it is never necessary for you to receive required minimum distributions from a Roth IRA to which you have contributed. If you choose, you can leave your Roth IRA untouched to compound tax free until you need the funds.

Retirement Distributions Can Be Tax Free. After you attain age 59½, you can receive distributions from your Roth IRA free of any tax after you meet the 5-year waiting period test (see answer 9).

12. WHAT HAPPENS TO MY ROTH IRA AFTER MY DEATH?

Beneficiary Designations. You can select the beneficiaries who will receive your IRA after your death on the IRA Application. You can change your beneficiaries in the future by completing a Beneficiary Change Form. It is important to complete a new

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Beneficiary Change Form each time that something occurs that causes you to want your IRA to go to different beneficiaries. The community or marital property laws of your state may grant your surviving spouse a portion of your IRA regardless of your designation of beneficiaries.

If you do not designate a beneficiary or if none of the beneficiaries you designate survive you, then your Roth IRA will be paid to your surviving spouse. If you do not have a surviving spouse, then it will be paid equally to your legitimate natural and legally adopted children. If you are not survived by any legitimate natural or legally adopted children, then it will be paid to your estate.

Your Spouse Can Move Assets to Own IRA. Your spouse has the option of moving the assets to a Roth IRA in his or her name (see "Death Benefits" in answer 8).

Required Minimum Distribution (RMD). The tax laws specify the RMD that each beneficiary must receive from a Roth IRA. We will ask your beneficiaries to select a payment plan. These plans will each meet your beneficiaries' RMD requirement, and if your beneficiaries select one of these plans, it will not be necessary for them to compute the amount of their RMD. Each beneficiary of your Roth IRA will be able to choose a lump sum payment or periodic payments over a time period no longer than his or her life expectancy. They will also have the option of receiving one or more payments over 5 years, and they may have additional payment options.

Field of Membership. The credit union laws under which we operate limit who can become a member of our credit union. This may limit our ability to offer periodic payment options to some beneficiaries. In such a situation, a beneficiary may obtain all of the options by direct transferring the death benefits to another IRA (see "To an IRA in the Owner's Name" in answer 8).

13. HOW ARE THE DEATH BENEFITS TAXED?

Estate Taxes. The entire value of an IRA is included in the estate for purposes of federal estate taxes.

Income Taxes. If your beneficiary meets the 5-year waiting period test before receiving a distribution of death benefits, then your beneficiary will not have to pay any income taxes on that distribution. The 5-year waiting period test is described in answer 9. This waiting period begins for your beneficiaries when it begins for you. If your beneficiary does not meet the 5-year waiting period test before receiving a distribution of death benefits, then your beneficiary will be required to pay income taxes on the part of the distribution attributable to the earnings inside the Roth IRA. This tax can be avoided by a beneficiary taking periodic payments over his or her lifetime until the 5-year waiting period has been met. The tax laws treat distributions from Roth IRAs as being allocable first to contributions and then to earnings. Distributions made during your lifetime are included in making this determination.

14. HOW IS THE IRA ITSELF TAXED?

This answer discusses the taxation of an IRA other than as a result of a distribution from the IRA. The taxation of Roth IRA distributions is discussed in answers 9, 10, and 13.

IRAs Generally Exempt from Tax. The earnings of an IRA are generally not subject to income tax while the money remains in the IRA. But an IRA will lose its exemption from taxation if you engage in a prohibited transaction. This will be effective as of the first day of the tax year in which the prohibited transaction occurs. In such a case, you will be treated as if the IRA's assets had been distributed to you. In addition, you may be liable for the 10% tax on early distributions. Examples of prohibited transactions are borrowing from an IRA, selling property to or buying property from an IRA, or receiving more than reasonable compensation for services performed for an IRA. An IRA is also subject to income tax on any unrelated business income that is earned by the IRA.

Using IRA as Security for a Loan. Using an IRA as security for a loan causes the portion used as security to be taxed as if it was distributed to you.

Investing IRA in Collectibles. Investing an IRA in collectibles causes the portion so invested to be taxed as if it was distributed to you. A "collectible" is a work of art, rug, antique, metal, gem, stamp, coin, alcoholic beverage, or other property specified by the Secretary of the Treasury. Certain gold, silver, and platinum coins and gold, silver, platinum, and palladium bullion are not considered to be collectibles.

No Federal Gift Tax. No federal gift tax has to be paid when you name a beneficiary or otherwise provide that payments from your IRA will be made to a designated person following your death.

15. WHAT ARE THE TAX REQUIREMENTS FOR A ROTH IRA?

A Roth IRA is a trust or custodial account created in the United States for the exclusive benefit of you and your beneficiaries. It must be created by a written governing instrument that meets the following requirements:

- The trustee or custodian must be a federally insured credit union, bank, savings and loan association, or another person that the IRS determines is eligible to act as trustee or custodian.
- Except for rollovers and transfers, the trustee or custodian must not accept contributions of more than the annual contribution limit.
- You must have a nonforfeitable interest in the Roth IRA.
- No part of the trust or custodial funds can be invested in life insurance contracts or collectibles, nor may the assets be commingled with other property except in a common trust fund or common investment fund.
- Distributions after your death must be made according to one of several options specified in the tax laws.

16. HOW MUCH WILL I HAVE IN MY IRA?

You should have received one or more financial projection tables along with this disclosure statement. If you did not receive these tables, then please ask us for a copy. These tables represent projections of the amount that you would be able to withdraw from your IRA based on certain assumed facts. These assumptions are stated on each table. These tables are only projections of the future value of your IRA based on these assumptions; they are not guarantees of the future value.

17. MISCELLANEOUS

Early Withdrawal Penalties. If an IRA is invested in an investment that has a fixed term, such as a share certificate or a certificate of deposit, then there may be an early withdrawal penalty imposed on a distribution from the IRA before the end of the investment term. We will provide you with a detailed explanation of the applicable early withdrawal penalties upon request.

IRS Model Agreement. The Credit Union Roth IRA Agreement was published as a model agreement by the IRS. This means only that the form of this agreement has been approved by the IRS. This does not represent a determination by the IRS of a Roth IRA's merits as an investment. Further information can be obtained from any district office of the IRS.

Hurricane-Related Relief. If you are an individual who sustained an economic loss due to, or are otherwise considered affected by, hurricane Katrina, Rita or Wilma, you may be eligible for favorable tax treatment on distributions and rollovers from your Roth IRA. Qualified distributions include Roth IRA distributions made on or after specified dates for each hurricane and before January 1, 2007 to a qualified individual. For a complete definition of what constitutes a qualified individual and a qualified hurricane distribution for purposes of hurricane relief, refer to IRS Publication 4492, *Information for Taxpayers Affected by Hurricanes Katrina, Rita and Wilma.*

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CREDIT UNION ROTH IRA DISCLOSURE STATEMENT (continued)

1. **10 Percent Penalty Exception on Qualified Distributions –** Qualified hurricane distributions are not subject to the 10 percent early distribution penalty tax. This penalty exception applies only to the first $100,000 of qualified distributions to each individual.
2. **Taxation May be Spread Over Three Years –** If you receive qualified hurricane distributions, you may elect to include the distribution in your gross income ratably over three years, beginning with the year of the distribution.
3. **Repayment of Qualified Hurricane Distributions –** You may roll over qualified hurricane distributions to an eligible retirement plan, and avoid federal income taxation, within three years of the date of receipt of the distribution. The 60-day rollover rule does not apply to these distributions.

For further detailed information on tax relief granted for hurricanes Katrina, Rita and Wilma, and other exceptions which may be granted in the future by the IRS, you may wish to obtain IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, by calling 1-800-TAXFORM, or by visiting www.irs.gov on the Internet.

Qualified Reservist Distributions. If you are a qualified reservist called to active duty, you may be eligible to take penalty-free distributions from your Roth IRA and recontribute those amounts to an IRA generally within a two-year period from your date of return. For further detailed information you may wish to obtain IRS Publication 590, *Individual Retirement Arrangements (IRAs)* from the IRS.

Heartland Disaster Related Tax Relief. If you are an individual who has sustained an economic loss due to, or are otherwise considered affected by, the severe storms, tornadoes and flooding that occurred in the Midwestern disaster area, you may be eligible for favorable tax treatment on distributions and rollovers from your Roth IRA. Qualified disaster recovery assistance distributions include Roth IRA distributions made on or after specified dates for each disaster, and before January 1, 2010 to a qualified individual. For more information on this tax relief, refer to IRS Publication 4492-B, *Information for Affected Taxpayers in the Midwestern Disaster Area.*

1. **10 Percent Penalty Exception on Qualified Distributions –** Qualified disaster recovery distributions are not subject to the 10 percent early distribution penalty tax. This penalty exception applies only to the first $100,000 of qualified distributions to each individual.
2. **Taxation May be Spread Over Three Years –** If you receive qualified disaster recovery assistance distributions, you may elect to include the distribution in your gross income ratably over three years, beginning with the year of the distribution.
3. **Repayment of Qualified Disaster Recovery Assistance Distributions –** You may roll over qualified disaster recovery assistance distributions to an eligible retirement plan, and avoid federal income taxation, within three years of the date of receipt of the distribution. The 60-day rollover rule does not apply to these distributions.

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