

October 2018

# Charles Schwab & Co., Inc. Individual Retirement Plan

**Information pertaining to your:**

- Traditional IRA Retirement Account
- Roth IRA Retirement Account

## Introduction

The following document describes the Charles Schwab & Co., Inc. Individual Retirement Plan (the "Plan"). Charles Schwab & Co., Inc. ("Schwab") will act as custodian of Individual Retirement Accounts ("IRAs") established under the terms and conditions of the Plan. The IRA agreement between you and Schwab consists of the Plan, together with the Account Application you complete when you open your IRA, the Schwab IRA Account Agreement, the IRA Plan Adoption Agreement (if any), and any other written agreements between you and Schwab, all as amended from time to time.

If you have questions about the information contained in this document or any of our products and services, call us at our toll-free number: 1-800-435-4000. If you are a client of an independent investment advisor, please call your advisor directly, or call Schwab Alliance at 1-800-515-2157.

## Contents

|  |   |
|--|---|
| <b>Charles Schwab &amp; Co., Inc. Individual Retirement Plan</b> . . . . .       | 3 |
| <b>Article I. Purpose of the Agreement</b> . . . . .                             | 3 |
| 1.1 Purpose of the Agreement . . . . .   | 3 |
| 1.2 Intent to Qualify . . . . .  | 3 |
| 1.3 For More Information. . . . .  | 3 |
| <b>Article II. Definitions</b> . . . . .   | 3 |
| 2.1 Account Application. . . . .   | 3 |
| 2.2 Agreement . . . . .  | 3 |
| 2.3 Beneficiary . . . . .  | 3 |
| 2.4 Code . . . . .   | 3 |
| 2.5 Compensation . . . . .   | 3 |
| 2.6 Conversion Contribution . . . . .  | 3 |
| 2.7 Custodian . . . . .  | 3 |
| 2.8 Designated Beneficiary . . . . .   | 3 |
| 2.9 IRA . . . . .  | 3 |
| 2.10 IRA Contribution Limit . . . . .  | 3 |
| 2.11 IRA Account Holder . . . . .  | 3 |
| 2.12 MAGI . . . . .  | 3 |
| 2.13 Prototype Sponsor . . . . .   | 3 |
| 2.14 Roth IRA . . . . .  | 3 |
| 2.15 SEP IRA Contribution Limit. . . . .   | 4 |
| 2.16 SEP IRA . . . . .   | 4 |
| 2.17 SEP Plan. . . . .   | 4 |
| 2.18 Traditional IRA. . . . .  | 4 |
| <b>Article III. Provisions Governing Roth IRAs</b> . . . . .                     | 4 |
| 3.1 Contribution Rules . . . . .   | 4 |
| 3.2 Distributions During Roth IRA Account Holder's Lifetime. . . . .             | 4 |
| 3.3 Transfers and Rollovers. . . . .   | 5 |
| <b>Article IV. Provisions Governing Traditional IRAs</b> . . . . .               | 5 |
| 4.1 IRA Contribution Limits . . . . .  | 5 |
| 4.2 Distributions During IRA Account Holder's Lifetime . . . . .                 | 5 |
| 4.3 Rollovers and Transfers. . . . .   | 6 |
| <b>Article V. Provisions Governing Both Traditional and Roth IRAs.</b> . . . . . | 6 |
| 5.1 Investment of Amounts in the IRA . . . . .                                   | 6 |
| 5.2 Restrictions on the Fund . . . . .   | 6 |
| 5.3 Written Distribution Requests . . . . .                                      | 7 |
| 5.4 Beneficiary Designations. . . . .  | 7 |
| 5.5 Distributions After IRA Account Holder's Death. . . . .                      | 7 |
| 5.6 Reporting Responsibilities. . . . .  | 8 |

|   |    |
|---|----|
| 5.7 Representations and Responsibilities . . . . .  | 8  |
| 5.8 Account Service Fees . . . . .  | 8  |
| 5.9 Notices and Change of Address. . . . .  | 8  |
| 5.10 Resignation or Removal of Custodian. . . . .   | 9  |
| 5.11 Liquidation of Assets. . . . .   | 9  |
| 5.12 Governing Law . . . . .  | 9  |
| 5.13 Amendment and Termination. . . . .   | 9  |
| 5.14 Transfers . . . . .  | 9  |
| <b>Charles Schwab &amp; Co., Inc. Individual Retirement Plan Disclosure Statement</b> . . . . . | 9  |
| <b>Right to Revoke Your IRA.</b> . . . . .  | 9  |
| <b>Requirements of an IRA</b> . . . . .   | 10 |
| A. Cash Contributions. . . . .  | 10 |
| B. Maximum Traditional IRA Contribution. . . . .  | 10 |
| C. Maximum Roth IRA Contribution. . . . .   | 10 |
| D. Traditional IRA Contribution Eligibility. . . . .  | 10 |
| E. Roth IRA Contribution Eligibility. . . . .   | 10 |
| F. Catch-Up Contributions. . . . .  | 10 |
| G. Nonforfeitability. . . . .   | 10 |
| H. Eligible Custodians. . . . .   | 10 |
| I. Commingling Assets. . . . .  | 10 |
| J. Life Insurance. . . . .  | 10 |
| K. Collectibles. . . . .  | 10 |
| L. Required Minimum Distributions and Beneficiary Options for Traditional IRAs. . . . .         | 10 |
| M. Required Minimum Distributions for Roth IRAs. . . . .  | 11 |
| N. Qualifying Longevity Annuity Contracts and RMDs. . . . .                                     | 11 |
| O. Beneficiary Options for Roth IRAs. . . . .   | 11 |
| <b>Income Tax Consequences of Establishing an IRA.</b> . . . . .                                | 11 |
| A. Traditional IRA Deductibility. . . . .   | 11 |
| B. Contributions Not Deducted for Roth IRAs. . . . .  | 12 |
| C. Contribution Deadline. . . . .   | 12 |
| D. Tax Credit for Contributions. . . . .  | 12 |
| E. Excess Contributions. . . . .  | 12 |
| F. Tax-Deferred Earnings. . . . .   | 13 |
| G. Nondeductible Contributions. . . . .   | 13 |
| H. Taxation of Traditional IRA Distributions. . . . .   | 13 |
| I. Taxation of Roth IRA Distributions. . . . .  | 13 |
| J. Income Tax Withholding. . . . .  | 13 |
| K. Early Distribution Penalty Tax. . . . .  | 13 |
| L. Rollovers and Conversions. . . . .   | 14 |
| M. Transfer Due to Divorce. . . . .   | 15 |
| N. Recharacterizations. . . . .   | 15 |
| <b>Limitations and Restrictions</b> . . . . .   | 15 |
| A. SEP Plans. . . . .   | 15 |
| B. Spousal IRA. . . . .   | 15 |
| C. Deduction of Rollovers and Transfers. . . . .  | 16 |
| D. Gift Tax. . . . .  | 16 |
| E. Special Tax Treatment. . . . .   | 16 |
| F. Prohibited Transactions. . . . .   | 16 |
| G. Pledging. . . . .  | 16 |
| <b>Other</b> . . . . .  | 16 |
| A. IRS Plan Approval. . . . .   | 16 |
| B. Additional Information. . . . .  | 16 |

|  |    |
|--|----|
| C. Important Information About Procedures for Opening a New Account. . . . . | 16 |
| D. Qualified Reservist Distributions. . . . .                                | 16 |
| E. Qualified Charitable Distributions. . . . .                               | 16 |
| F. Disaster-Related Relief. . . . .  | 16 |
| IRS Approval Letters . . . . .   | 17 |
| Reproduction of IRS Letter Approving Schwab as IRA Custodian . . . . .       | 18 |

**Charles Schwab & Co., Inc.  
Individual Retirement Plan**

**Article I. Purpose of the Agreement**

**1.1 Purpose of the Agreement**

The purpose of this Agreement is to establish either a Traditional IRA under Section 408(a) of the Code or a Roth IRA under Section 408A of the Code, as indicated on the Schwab IRA Account Application; to provide for the IRA Account Holder’s retirement; and for the support of his or her Beneficiary(ies) after death. The account is established for the exclusive benefit of the IRA Account Holder or his or her Beneficiaries. If this is an inherited IRA within the meaning of Section 408(d)(3)(C) of the Code maintained for the benefit of a Designated Beneficiary of a deceased individual, references in this document to the “IRA Owner” are to the deceased individual.

**1.2 Intent to Qualify**

It is the intent of the IRA Account Holder that this Agreement shall qualify for approval under Section 408(a) of the Code if a Traditional IRA is selected on the Account Application or under Section 408A of the Code if a Roth IRA is selected on the Account Application. In no event will the Custodial account established under this Agreement operate as both a Traditional IRA and a Roth IRA.

**1.3 For More Information**

To obtain more information concerning the rules governing this Agreement, contact Charles Schwab & Co., Inc. (“Schwab”) at 1-800-435-4000.

**Article II. Definitions**

The following words and phrases when used in this Agreement with initial capital letters shall, for the purpose of this Agreement, have the meanings set forth below unless the context indicates that other meanings are intended:

**2.1 Account Application**

Means the document executed by the IRA Account Holder through which it adopts this Agreement and the Account Agreement and thereby agrees to be bound by all terms and conditions of this Agreement and the Account Agreement. As used in this definition, “Account Agreement” means the agreement the IRA Account Holder makes with Schwab when it opens a Schwab IRA, consisting of the IRA Application; the Account Agreement for the Schwab IRA; the IRA Plan Adoption Agreement (if any); the Charles Schwab & Co., Inc. Individual Retirement Plan; and any other written agreements between Schwab and the IRA Account Holder concerning the Schwab IRA, all as amended from time to time.

**2.2 Agreement**

Means this IRA prototype plan, including the Account Application that was completed and signed to establish this Agreement.

**2.3 Beneficiary**

Means the individual(s) or entity(ies) properly named to receive any remaining IRA benefits upon the death of the IRA Account Holder.

**2.4 Code**

Means the Internal Revenue Code of 1986, as amended from time to time.

**2.5 Compensation**

For purposes of Sections 3.1(A) and 4.1(A) of this Agreement, Compensation is defined as wages, salaries, professional fees, or other amounts derived from, or received for, personal services actually rendered (including, but not limited to, paid sales commissions,

compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, and bonuses) and includes earned income, as defined in Section 401(c)(2) of the Code (reduced by the deduction a self-employed IRA Account Holder takes for contributions made to a self-employed retirement plan). For purposes of this definition, Section 401(c)(2) of the Code shall be applied as if the term “trade” or “business” for purposes of Section 1402 of the Code includes service described in Section 1402(c)(6) of the Code. Compensation shall include any amount includable in an IRA Account Holder’s gross income under Section 71 of the Code with respect to a divorce or separation instrument described in subparagraph (A) of Section 71(b)(2) of the Code. Compensation also includes any differential wage payments as defined in Section 3401(h)(2) of the Code.

Compensation does not include amounts derived from, or received as earnings or profits from, property (including, but not limited to, interest and dividends) or amounts not includable in gross income (determined without regard to Section 112 of the Code). Compensation also does not include any amount received as a pension or annuity or as deferred compensation. In the case of a married individual filing a joint return, the greater compensation of his or her spouse is treated as his or her own compensation, but only to the extent that such spouse’s compensation is not being used for purposes of the spouse making an IRA contribution. For SEP Plans, compensation is defined in Section 414(s) of the Code as reflected in the SEP Plan.

**2.6 Conversion Contribution**

Means a rollover contribution described in Section 408A(e) of the Code from a Traditional, SEP IRA or SIMPLE IRA to a Roth IRA.

**2.7 Custodian**

Means Schwab, which has the approval of the IRS to act as the Custodian named on the Account Application, or its successor or eligible assignee. If Schwab is merged with another organization (or comes under the control of any Federal or State agency) or if its entire organization (or any portion of which includes this IRA) is purchased 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.

**2.8 Designated Beneficiary**

A Designated Beneficiary means a Beneficiary who is a living individual or the underlying beneficiary of certain types of trusts that meet the requirements of Section 1.401(a)(9)-4, Q&A5 of the Treasury Regulations.

**2.9 IRA**

Means Traditional IRA or Roth IRA, unless otherwise indicated.

**2.10 IRA Contribution Limit**

Means \$3,000 for 2002 through 2004, \$4,000 for 2005 through 2007, and \$5,000 on and after 2008. In addition, for individuals who have attained age 50 before the end of a calendar year, the IRA Contribution Limit is \$3,500 for 2002 through 2004, \$4,500 for 2005, \$5,000 for 2006 through 2007, and \$6,000 on and after 2008. These amounts reflect an investment by an individual IRA Account Holder. These amounts may be adjusted in \$500 increments for cost-of-living after 2008.

**2.11 IRA Account Holder**

Means the individual whose name appears on the Account Application.

**2.12 MAGI**

Means an individual’s modified adjusted gross income for a taxable year as defined in Section 408A(c)(3)(C)(i) of the Code and does not include any amount included in adjusted gross income as a result of a rollover from a Traditional IRA (a “conversion”).

**2.13 Prototype Sponsor**

Means Schwab.

**2.14 Roth IRA**

Means an Individual Retirement Account as defined in Section 408A of the Code.

### 2.15 SEP IRA Contribution Limit

Means such limits as prescribed by Section 408(k) of the Code contributed by the employer. The SEP IRA Account Holder may also make a contributory IRA contribution within the IRA Contribution Limit described in Section 2.10.

### 2.16 SEP IRA

Means an Individual Retirement Account as defined in Section 408(a) of the Code, established by an individual to hold contributions made by his or her employer according to the employer's SEP Plan.

### 2.17 SEP Plan

Retirement plan established according to Section 408(k) of the Code.

### 2.18 Traditional IRA

Means an Individual Retirement Account as defined in Section 408(a) of the Code and a SEP IRA, when applicable.

## Article III. Provisions Governing Roth IRAs

Article III applies only if this IRA has been designated by the IRA Account Holder on the Account Application as a Roth IRA.

### 3.1 Contribution Rules

**A. Maximum Permissible Amount.** Except in the case of a qualified rollover contribution (as defined in [H] below) or a recharacterization (as defined in [G] below), no contribution will be accepted unless it is in cash and the total of such contributions to all the individual's Roth IRAs for a taxable year does not exceed the IRA Contribution Limit, or the individual's Compensation, if less, for that taxable year. The contribution described in the previous sentence that may not exceed the lesser of the IRA Contribution Limit or the individual's Compensation is referred to as a "regular contribution." However, notwithstanding the preceding limits on contributions, an individual may make additional contributions specifically authorized by statute—such as repayments of qualified reservist distributions, repayments of certain plan distributions made on account of a federally declared disaster and certain amounts received in connection with the Exxon Valdez litigation.

**B. Regular IRA Contribution Limit.** If (i) and/or (ii) below apply, the maximum regular contribution that can be made to all the individual's Roth IRAs for a taxable year is the smaller amount determined under (i) or (ii).

(i) The maximum regular contribution is phased out ratably between certain levels of MAGI in accordance with the following table:

| Filing Status                       | Full Contributions | Phase-Out Range Modified AGI    | No Contributions  |
|-------------------------------------|--------------------|---------------------------------|-------------------|
| Single or Head of Household         | \$95,000 or less   | Between \$95,000 and \$110,000  | \$110,000 or more |
| Joint Returning or Qualifying Widow | \$150,000          | Between \$150,000 and \$160,000 | \$160,000 or more |
| Married Filing Separate             | \$0                | Between \$0 and \$10,000        | \$10,000 or more  |

A Roth IRA Holder's modified adjusted gross income (MAGI) for a taxable year is defined in Section 408A(c)(3) of the Code and does not include any amount included in adjusted gross income as a result of a qualified rollover contribution. If the individual's MAGI for a taxable year is in the phase-out range, the maximum regular contribution determined under this table for that taxable year is rounded up to the next multiple of \$10 and is not reduced below \$200. After 2006, the modified adjusted gross income limits above will be adjusted by the Secretary of the Treasury for cost-of-living increases under Code section 408A(c)(3). Such adjustments will be in multiples of \$1,000.

(ii) If the individual makes regular contributions to both Roth and Traditional IRAs for a taxable year, the maximum regular contribution that can be made to all the individual's Roth IRAs for the taxable year is reduced by the regular contributions made to the individual's Traditional IRAs for the taxable year.

**C. Qualified Reservist Repayments.** Notwithstanding the dollar limits on contributions, a Roth IRA Account Holder may make a repayment of a qualified reservist distribution described in Code section 72(t)(2)(G)

during the two-year period beginning on the day after the end of the active duty period.

**D. Employees of Certain Bankrupt Employers.** A Roth IRA Account Holder who was a participant in a qualified cash or deferred arrangement (as defined in Code section 401(k)) of a certain employer in bankruptcy described in Code section 219(c)(5)(D) may make catch-up contributions of up to \$3,000 for taxable years beginning after 2006 and before 2010 only. A Roth IRA Holder who makes catch-up contributions under this section may not also make age 50 catch-up contributions.

**E. SIMPLE IRA Limits.** No contributions will be accepted under a SIMPLE IRA Plan established by any employer pursuant to Section 408(p) of the Code. Also, no transfer or rollover of funds attributable to contributions made by a particular employer under its SIMPLE IRA Plan will be accepted from a SIMPLE IRA, that is, an IRA used in conjunction with a SIMPLE IRA Plan, prior to the expiration of the two-year period beginning on the date the employee first participated in that employer's SIMPLE IRA Plan.

**F. Inherited IRA.** If this is an inherited Roth IRA within the meaning of Section 408(d)(3)(C) of the Code, no contributions will be accepted.

**G. Recharacterization.** A regular contribution made to a Traditional IRA may be recharacterized pursuant to the rules in Section 1.408A-5 of the final Treasury Regulations as a regular contribution to this Roth IRA, subject to the limits in Article 3.1(A) of this Agreement.

**H. Qualified Rollover Contribution.** A qualified rollover contribution is a rollover contribution of a distribution from an eligible retirement plan described in Section 402(c)(8)(B) of the Code. If the distribution is from an IRA, the rollover must meet the requirements of Section 408(d)(3) of the Code, except the one-rollover-per-year rule of Section 408(d)(3)(B) of the Code does not apply if the rollover contribution is from an IRA other than a Roth IRA. If the distribution is from an eligible retirement plan other than an IRA, the rollover must meet the requirements of Sections 402(c), 402(e)(6), 403(a)(4), 403(b)(8), 403(b)(10), 408(d)(3) or 457(e)(16) of the Code, as applicable. A qualified rollover contribution also includes Articles 3.1(H)(1) and (2) of this Agreement.

(i) All or part of a military death gratuity or servicemembers' group life insurance (SGLI) payment may be contributed if the contribution is made within one year of receiving the gratuity or payment. Such contributions are disregarded for purposes of the one-rollover-per-year rule under Section 408(d)(3)(B) of the Code.

(ii) All or part of an airline payment (as defined in Section 125 of the Worker, Retiree, and Employer Recovery Act of 2008 [WRERA], Pub. L. 110-458) received by certain airline employees may be contributed if the contribution is made within 180 days of receiving the payment.

**I. Spousal Roth IRA Contributions.** An IRA Account Holder filing a joint tax return whose Compensation is less than the Compensation of his or her spouse can make a maximum IRA contribution of the lesser of:

(i) The IRA Contribution Limit; or

(ii) The total Compensation of the IRA Account Holder and his or her spouse for the year, reduced by the sum of the spouse's IRA Contributions for the year.

### 3.2 Distributions During Roth IRA Account Holder's Lifetime

The Roth IRA Account Holder is not required to take distributions from his or her Roth IRA during his or her lifetime. At the Roth IRA Account Holder's death, however, the Beneficiary or Beneficiaries must begin taking distributions in accordance with Article 5.5 of this Agreement. The Custodian will make no payouts to the IRA Account Holder from this Roth IRA until the Custodian receives from the Roth IRA Account Holder a written request for a distribution on a form provided by or approved by the Custodian.

**A. Qualified Distributions.** Qualified distributions from the IRA Account Holder's Roth IRA (both the contributions and earnings) are excluded from gross income for the year in which they are distributed. A qualified distribution is a distribution which is made after the five-year period beginning with the first year for which the IRA Account Holder made any contribution to a Roth IRA (including a conversion from a Traditional



IRA, SIMPLE IRA or SEP IRA) and is made on account of one of the following events:

- (i) on or after the attainment of age 59½,
- (ii) the IRA Account Holder becomes disabled, as described in Code section 72(m)(7),
- (iii) the distribution is used to pay expenses for the “qualified” purchase of a first home, or
- (iv) the Roth IRA Account Holder dies, and the distribution is made to the Roth IRA Account Holder’s Beneficiary or estate.

**B. Nonqualified Distributions.** If the Roth IRA Account Holder does not meet the requirements for a qualified distribution, any earnings withdrawn from his or her Roth IRA will be included in gross income and, if the Roth IRA Account Holder is under age 59½, may be subject to an early distribution penalty. However, when the Roth IRA Account Holder takes a distribution, the amounts he or she contributed annually to any Roth IRA account will be deemed to be removed first, followed by conversion contributions made to any Roth IRA on a first-in, first-out basis. Therefore, the IRA Account Holder’s nonqualified distributions will not be taxable until the IRA Account Holder’s withdrawals exceed the amount of his or her annual contributions and conversion contribution amounts.

### 3.3 Transfers and Rollovers

The Custodian can receive amounts transferred or rolled over to this Roth IRA from the trustee or Custodian of another Roth IRA as permitted by statute or applicable regulations.

## Article IV. Provisions Governing Traditional IRAs

This Article IV shall only apply if this IRA has been designated by the IRA Account Holder on the Account Application as a Traditional IRA and is not a SEP IRA.

### 4.1 IRA Contribution Limits

**A. Regular Contributions.** Except in the case of a “qualified rollover contribution” or a recharacterization (as defined in [H] below), no contribution will be accepted unless it is in cash and the total of such contributions to all the individual’s Traditional IRAs for a taxable year does not exceed the IRA Contribution Limit, or the individual’s Compensation, if less, for that taxable year. The contribution described in the previous sentence that may not exceed the lesser of the IRA Contribution Limit or the individual’s Compensation is referred to as a “regular contribution.” A “qualified rollover contribution” is a rollover contribution that meets the requirements of Section 408(d)(3) of the Code.

If the individual makes regular contributions to both Roth and Traditional IRAs for a taxable year, the maximum regular contribution that can be made to all the individual’s Traditional IRAs for the taxable year is reduced by the regular contributions made to the individual’s Roth IRAs for the taxable year.

**B. Rollover Limits.** The Custodian may accept additional cash contributions on behalf of the Traditional IRA Account Holder for a tax year of the IRA Account Holder. The total cash contributions are limited to the IRA Contribution Limit for the tax year unless the contribution is a rollover contribution described in Sections 402(c), 402(e)(6), 403(a)(4), 403(b)(8), 403(b)(10), 408(d)(3) and 457(e)(16) of the Code, or an employer contribution to a SEP Plan as described in Section 408(k) of the Code.

**C. Additional Contributions.** In addition to the amounts described in Articles 4.1(A) and (B), a Traditional IRA Account Holder may make additional contributions specifically authorized by statute—such as repayments of qualified reservist distributions, repayments of certain plan distributions made on account of a federally declared disaster and certain amounts received in connection with the Exxon Valdez litigation.

**D. Employees of Certain Bankrupt Employers.** A Traditional IRA Account Holder who was a participant in a qualified cash or deferred arrangement (as defined in Code section 401(k)) of a certain employer in bankruptcy described in Code section 219(b)(5)(C) may make catch-up contributions of up to \$3,000 for taxable years beginning after 2006 and before 2010 only. A Traditional IRA Account Holder who makes

catch-up contributions under this section may not also make age 50 catch-up contributions.

**E. SIMPLE IRA Limits.** No contribution will be accepted under a SIMPLE plan established by any employer pursuant to Section 408(p) of the Code. No transfer or rollover of funds attributable to contributions made by a particular employer under its SIMPLE plan will be accepted from a SIMPLE IRA, that is, an IRA used in conjunction with a SIMPLE plan, prior to the expiration of the two-year period beginning on the date the IRA Account Holder first participated in that employer’s SIMPLE plan.

**F. Spousal Traditional IRA Contributions.** An IRA Account Holder filing a joint tax return whose Compensation is less than the Compensation of his or her spouse can make a maximum IRA contribution of the lesser of: (i) The IRA Contribution Limit; or (ii) The total Compensation of the IRA Account Holder and his or her spouse for the year, reduced by the sum of the spouse’s IRA Contributions for the year.

**G. Inherited IRA.** If this is an inherited Traditional IRA within the meaning of Section 408(d)(3)(C) of the Code, no contributions will be accepted.

**H. Recharacterization.** A regular contribution made to a Roth IRA may be recharacterized pursuant to the rules in Section 1.408A-5 of the final Treasury Regulations as a regular contribution to this Traditional IRA, subject to the limits in Article 4.1A of this Agreement.

### 4.2 Distributions During IRA Account Holder’s Lifetime

**A. General Rules.** The IRA Account Holder may request a distribution of all or part of this Traditional IRA at any time. Notwithstanding any provision of this Agreement to the contrary, a distribution of the IRA Account Holder’s interest in this Traditional IRA shall be made in accordance with the following requirements and shall otherwise comply with Section 408(a)(6) of the Code, Section 1.408-8 of the Treasury Regulations, including the incidental death benefit provisions of Section 1.401(a)(9)-2 of the Treasury Regulations and the required minimum distribution provisions of Sections 1.401(a)(9)-1 through 1.401(a)(9)-9 of the Treasury Regulations, the provisions of which are herein incorporated by reference. The required minimum distributions calculated for this Traditional IRA may be withdrawn from another Traditional IRA of the IRA Account Holder in accordance with Section 1.408-8, Q&A9 of the Treasury Regulations. If this is an inherited Traditional IRA within the meaning of Section 408(d)(3)(C) of the Code, the preceding sentence and paragraph [C] below do not apply. The Custodian will make no payouts to the IRA Account Holder from this Traditional IRA until the Custodian receives from the IRA Account Holder a written request for a distribution on a form provided by or approved by the Custodian.

**B. 10% Federal Tax Penalty.** If the Traditional IRA Account Holder receives a distribution before attaining age 59½, the IRS will assess a federal tax penalty of 10% on the taxable part of the amount withdrawn, unless the distribution meets the requirements for an exception to the penalty as described in Section 72(t) of the Code.

**C. Required Minimum Distributions to the IRA Account Holder.** The IRA Account Holder’s entire interest in this Traditional IRA must be, or begin to be, distributed by the IRA Account Holder’s required beginning date (April 1 of the year following the year in which the IRA Account Holder reaches age 70½). By that date, the IRA Account Holder may elect, in a manner acceptable to the Custodian, to have the balance in this Traditional IRA distributed in accordance with this section. Required minimum distributions may be paid as either a single sum payment or annual payments calculated in accordance with the IRA Holder’s distribution period. If the IRA Holder elects to receive annual payments, the amount to be distributed each year as a required minimum distribution, beginning with the year the IRA Account Holder attains his required beginning date and continuing through the year of the IRA Account Holder’s death, shall not be less than the amount determined by dividing the value of the Traditional IRA Account as of December 31 of the preceding year by the appropriate distribution period. Such payments may be made as an annual lump sum or as a series of payments during the calendar year.

The “value” of the Traditional IRA Account includes the amount of any outstanding rollovers, transfers and recharacterizations made in accordance with Section 1.408-8, Q&A7 through 8, of the Treasury Regulations.

All required minimum distributions made during the IRA Account Holder's lifetime shall be based on the IRA Account Holder's "distribution period." An IRA Account Holder's distribution period is obtained by locating the IRA Account Holder's age on the Uniform Lifetime Table (the "Uniform Table"), described in Section 1.401(a)(9)-9, Q&A2 of the Treasury Regulations. Notwithstanding the foregoing, if the IRA Account Holder's spouse is both the sole Designated Beneficiary and is more than 10 years younger than the IRA Account Holder, then the IRA Account Holder's required minimum distribution shall be calculated according to the distribution period obtained at the intersection of the ages of the IRA Account Holder and his or her spouse under the Joint and Last Survivor Expectancy Table (the "Joint and Survivor Table") as described in Section 1.401(a)(9)-9, Q&A3 of the Treasury Regulations.

The IRA Account Holder's required minimum distribution shall be calculated annually.

The Traditional IRA Account Holder must request to have the required minimum distribution begin for the first distribution year by his or her required beginning date. The Traditional IRA Account Holder must request to have the required minimum distribution made for other calendar years—including the year containing the required beginning date—no later than December 31 of that year. The IRA Account Holder is responsible for asking the Custodian to distribute the required amount from the Traditional IRA. If the IRA Account Holder fails to make such an election by his or her required beginning date, the Custodian shall make no payment until the Traditional IRA Account Holder provides a proper payment request to the Custodian. The Custodian will calculate the required minimum distribution using the Uniform Table unless required to use the Joint and Survivor Table. The required distribution for each year is determined by dividing the IRA Account Holder's entire interest in this Traditional IRA as of the close of business on December 31 of the preceding year by the divisor for the applicable distribution period listed on the Uniform Table, using the attained age of the IRA Account Holder as of his or her birthday in the current year or, if the Joint and Survivor Table is required, for the applicable distribution period listed at the intersection of the ages of the IRA Account Holder and the IRA Account Holder's spouse. For the purposes of distributions beginning after the IRA Account Holder's death, the distribution period for his or her Beneficiary(ies) shall be calculated in accordance with Section 5.5.

#### **4.3 Rollovers and Transfers**

The Custodian may receive amounts transferred to this Traditional IRA or SEP IRA from the trustee or custodian of another Traditional IRA, SEP IRA or SIMPLE IRA. In addition, the Custodian can accept direct rollovers of eligible rollover distributions from employer plans as permitted by the Code. Eligible rollover distributions include distributions from 401(k), 403(b), and 457(b) plans, as well as pre-tax and after-tax distributions from a qualified 401(a) plan. The Custodian reserves the right not to accept any transfer or direct rollover.

### **Article V. Provisions Governing Both Traditional and Roth IRAs**

#### **5.1 Investment of Amounts in the IRA**

**A. Contributions.** If the IRA Account Holder dies before his or her entire interest has been distributed and if the Beneficiary is other than the surviving spouse, no additional cash contributions or rollover contributions may be accepted in this IRA.

**B. Direction of Investment.** The IRA Account Holder has exclusive responsibility for and control over the investment of the assets in this IRA. The IRA Account Holder shall direct all investment transactions, including transactions involving earnings and the proceeds from securities sales. The IRA Account Holder's selection of investments, however, shall be limited to publicly traded securities, options, mutual funds, money market instruments, bank deposit accounts at an FDIC-insured depository institution affiliated with Schwab, and any other permitted investments that are obtainable by the Custodian and that the Custodian is capable of holding in the ordinary course of its business. In the absence of instructions from the IRA Account Holder or if the instructions are not in a form acceptable to the Custodian, the Custodian shall invest any uninvested cash balances in accordance with the default investment described in the Account Application and other disclosures as Schwab may provide. By executing the Account Application (or making a subsequent designation), you authorize and

direct Schwab to invest or deposit the uninvested cash balances in your IRA account as described in those documents. The Custodian shall continue to make such default investments until additional investment direction is provided by the IRA Account Holder in a form and manner acceptable to the Custodian. All transactions shall be subject to any and all applicable Federal and State laws and regulations and the rules, regulations, customs and usages of any exchange, market or clearinghouse where the transaction is executed and to the Custodian's policies and practices.

After the IRA Account Holder's death, the Beneficiary(ies) shall have the right to direct the investment of the assets in this IRA, subject to the same conditions that applied to the IRA Account Holder during his or her lifetime under this Agreement (including, without limitation, this Article 5.1).

**C. The Custodian's Investment Powers and Duties.** The Custodian shall have no discretion to direct any investment in the IRA. Except as provided below, the Custodian assumes no responsibility for rendering investment advice with respect to this IRA, nor will it offer any opinion or judgment to the IRA Account Holder on matters concerning the value or suitability of any investment or proposed investment for this IRA. The Custodian will be responsible for determining the suitability of an investment or proposed investment only if (1) a representative of the Custodian gives advice directly to the IRA Account Holder; and (2) the advice is clearly identified as a recommendation by the Custodian for the IRA Account Holder to enter into a particular transaction or to buy or sell a particular security. The Custodian shall exercise the voting rights and other shareholder rights with respect to securities in this IRA but only in accordance with the instructions from the IRA Account Holder, and in accordance with applicable rules of the Securities and Exchange Commission and the national exchanges of which the Custodian is a member.

**D. Delegation of Investment Responsibility.** The Custodian may, but is not required to, permit the IRA Account Holder to delegate the IRA Account Holder's investment responsibility for this IRA to another party acceptable to the Custodian by giving written notice of the delegation in a format prescribed by the Custodian. The Custodian shall follow the direction of any such party who is properly appointed and shall be under no duty to review or question, nor be responsible for, any of that party's directions, actions or failures to act.

**E. Prohibited Investments.** No part of this IRA may be invested in life insurance contracts, nor may the assets of this IRA be commingled with other property except in a common trust fund or common investment fund (within the meaning of Section 408(a)(5) of the Code). No part of this IRA may be invested in collectibles (within the meaning of Section 408(m) of the Code) or any tangible personal property even if otherwise permitted by Section 408(m)(3) of the Code.

**F. Proper Distributions.** If the Custodian determines that the Beneficiary designation is not clear with respect to the amount of the distribution, the date on which the distribution shall be made, or the identity of the party or parties who will receive the distribution, the Custodian shall have the right, in its sole discretion, to consult counsel and to institute legal proceedings to determine the proper distribution of the account, all at the expense of the account, before distributing or transferring the account.

**G. Custodian's Right to Request Judicial Assistance.** The Custodian has the right at any time to apply to a court of competent jurisdiction:

- (i) To settle the IRA; or
- (ii) To receive instructions or to determine any questions of interpretation that may arise. The IRA Account Holder is the only party necessary to the accounting or proceeding. However, the Custodian may elect to join any other parties. The Custodian will charge the costs, including lawyers' fees, for any such accounting or proceeding as an administrative expense under Section 5.8.

#### **5.2 Restrictions on the Fund**

The IRA Account Holder's interest in the balance in this IRA is nonforfeitable. Neither the IRA Account Holder nor any Beneficiary may sell, transfer or pledge any interest in this IRA in any manner

whatsoever, except as provided by law or this Agreement, nor engage in any transaction prohibited under Section 4975 of the Code. The assets in this IRA shall not be responsible for the debts, contracts or torts of any person entitled to distributions under this Agreement.

### 5.3 Written Distribution Requests

All requests for withdrawal, including the method of distribution, shall be in writing on a form provided by or acceptable to the Custodian or in such other format as permitted or required by the Custodian. The tax identification number of the recipient must be provided to the Custodian before it is obligated to make a distribution. Any withdrawals shall be subject to all applicable tax and other laws and regulations including possible early withdrawal penalties and withholding requirements.

### 5.4 Beneficiary Designations

The IRA Account Holder may designate one or more person(s) or entity(ies) as Beneficiary of the IRA. This designation can only be made in writing using an acceptable format prescribed by the Custodian, and it will only be effective when it is filed with the Custodian during the IRA Account Holder's lifetime. Each Beneficiary designation the IRA Account Holder files with the Custodian will cancel all previous ones. The consent of a Beneficiary shall not be required for the IRA Account Holder to revoke a Beneficiary designation. If the IRA Account Holder does not designate a Beneficiary, the estate will be the Beneficiary. Unless specifically designated otherwise in writing and in a manner acceptable to the Custodian, the assets of this IRA will be distributed equally to all primary Beneficiaries who survive the IRA Account Holder and in equal shares to all contingent Beneficiaries if all primary Beneficiaries die before the IRA Account Holder.

### 5.5 Distributions After IRA Account Holder's Death

If the IRA Account Holder dies before receiving all of the amounts in his or her IRA, the entire remaining interest will be distributed to the Beneficiary(ies). Notwithstanding any provision of this Agreement to the contrary, a distribution of the Beneficiary(ies) interest in this Traditional or Roth IRA shall be made in accordance with the following requirements and shall otherwise comply with Section 408(a)(6) of the Code, Section 1.408-8 of the Treasury Regulations, including the incidental-death benefit provisions of Section 1.401(a)(9)-2 of the Treasury Regulations, and the required minimum distribution provisions of Sections 1.401(a)(9)-1 through 1.401(a)(9)-9 of the Treasury Regulations, the provisions of which are herein incorporated by reference. The IRA Account Holder may change Beneficiary(ies) at any time until his or her death. The determination of the Designated Beneficiary(ies) shall be fixed on September 30 of the year following the IRA Account Holder's death.

Any person who was a Designated Beneficiary as of the IRA Holder's death, but is not a Designated Beneficiary as of September 30 (e.g., because the person receives the entire benefit to which the person is entitled or disclaims entitlement to the benefit pursuant to Section 2518 of the Code by September 30), will not be taken into account for purposes of determining the distribution period after the IRA Holder's death. Notwithstanding the foregoing, a person who was a Designated Beneficiary as of the date of the IRA Holder's death and dies prior to September 30 of the calendar year following the calendar year of the IRA Holder's death shall be taken into account for purposes of determining the distribution period after the IRA Holder's death, without regard to any successor beneficiary who is entitled to distributions as the beneficiary of the deceased Designated Beneficiary. If on September 30 of the year after the IRA Account Holder's death there is no Beneficiary, all Designated Beneficiary(ies) have died and there is no successor Beneficiary, the IRA Holder's Beneficiary will be the estate. If the IRA Account Holder dies before his required beginning date and the Custodian is timely notified of the IRA Account Holder's death, the Custodian will distribute the IRA to the estate of the IRA Account Holder in accordance with Section 5.5(i)(d) below. If the IRA Account Holder dies after the required beginning date, and the Custodian is timely notified, the Custodian will distribute the IRA in a single payment to the estate of the IRA Account Holder by December 31 of the year after the IRA Account Holder's death. If notice of the IRA Account Holder's death is not timely, then the IRA distribution to the estate will be made as soon as practicable after receiving notice of the IRA Account Holder's death.

The IRA Account Holder of a Traditional IRA must begin taking minimum distributions at his or her required beginning date in accordance with Section 4.2. Although the IRA Account Holder of a Roth IRA is not required to take minimum distributions during his or her lifetime, at the IRA Account Holder's death, the Beneficiary(ies) must begin taking minimum distributions in accordance with this Agreement. The amount to be distributed each year to the Beneficiary(ies) as a required minimum distribution shall not be less than the amount determined by dividing the value of the IRA Account as of December 31 of the preceding year by the appropriate distribution period. The distribution period utilized by the Designated Beneficiary(ies) of either a Roth or a Traditional IRA is contingent upon whether the IRA Account Holder died prior to attaining his or her required beginning date (as described in [i] below). The Custodian will make no payouts from this IRA until the Custodian receives a written request for a distribution from the Beneficiary on a form provided or approved by the Custodian. A Beneficiary's failure to withdraw required minimum distributions from the IRA Account Holder's Account may subject the Beneficiary to a 50% excise tax for that year on the amount not distributed as required by Section 401(a)(9) of the Code. The required minimum distributions payable to a Beneficiary from this IRA may be withdrawn from another IRA the Beneficiary holds from the same decedent in accordance with Section 1.408-8 Q&A9 of the Treasury Regulations.

If the IRA Account Holder receives distributions prior to the required beginning date and the IRA Account Holder subsequently dies, the IRA Account Holder will not be considered as having reached his or her required beginning date.

- (i) If the IRA Account Holder of a Roth IRA dies or if the IRA Account Holder of a Traditional IRA dies prior to his required beginning date (April 1 of the year following the year the IRA Account Holder would have attained age 70½), at the election of the IRA Account Holder or, if the IRA Account Holder has not so elected, at the election of the Designated Beneficiary or Beneficiaries, the entire remaining interest will either:
  - (a) Be distributed by December 31 of the year containing the fifth anniversary of the IRA Account Holder's death; or
  - (b) Begin to be distributed no later than December 31 of the year following the year of the IRA Account Holder's death based on the life expectancy of the Designated Beneficiary(ies) as calculated in accordance with the Single Life Table distribution period obtained from Treasury Regulation Section 1.401(a)(9)-9, Q&A1. The distribution period is the divisor listed on the Single Life Table next to the Designated Beneficiary's age (or the age of the oldest Designated Beneficiary if more than one) as of his or her birthday in the year following the year of the IRA Account Holder's death, reduced by one for each year elapsed since the year following the IRA Account Holder's death. If this is an inherited IRA within the meaning of Section 408(d)(3) of the Code established for the benefit of a non-spouse Beneficiary by a direct trustee-to-trustee transfer from a retirement plan of a deceased individual under Section 402(c)(11) of the Code, then, notwithstanding any election made by the deceased individual pursuant to the preceding sentence, the nonspouse Beneficiary may elect to have distributions made under this Section of the Agreement if the transfer is made no later than the end of the year following the year of death.
- (c) If the IRA Account Holder's surviving spouse is the sole Designated Beneficiary, the distribution period is the divisor listed on the Single Life Table next to the surviving spouse's age as of his or her birthday in the current year. Additionally, if the sole Designated Beneficiary is the IRA Account Holder's spouse, the surviving spouse may elect to begin distributions on December 31 of the year following the year of the IRA Account Holder's death, delay distributions until December 31 of the year in which the IRA Account Holder would have turned age 70½ or roll over the assets of the account to his or her own Roth or Traditional IRA, or deem this IRA his or her own, as applicable. This election will be deemed to have been made only if written notice is provided to the Custodian of the Account Holder's death and, thereafter, such surviving spouse makes a contribution to the IRA or fails to take



required distributions as a beneficiary. Notwithstanding the foregoing, if the surviving spouse is the sole Designated Beneficiary by virtue of being the underlying beneficiary of a trust described in Section 2.8, he or she will not be eligible to deem this IRA as his or her own. If the surviving spouse of an IRA Holder receives a distribution from the IRA Account after the IRA Holder's death, the surviving spouse will be permitted to roll over that distribution to an IRA in his or her own name within 60 days regardless of whether the surviving spouse is the sole Beneficiary. No minimum distributions will be required so long as the rollover occurs prior to the date the IRA Account Holder would have attained age 70½.

- (d) If there is no Designated Beneficiary, the entire remaining interest shall be distributed in accordance with Section 5.5(i)(a) above.
- (ii) If the IRA Account Holder of a Traditional IRA dies on or after his or her required beginning date, the distribution period will be calculated in accordance with the Single Life Table. A minimum required distribution is required for the year of the IRA Holder's death, and that amount must be distributed to the Beneficiary(ies) to the extent it has not already been distributed to the IRA Holder. Distributions for the year in which the IRA Holder dies will be calculated as if the IRA Holder lived throughout the year.
- (a) Subsequent distributions to the Designated Beneficiary must begin no later than December 31 of the year following the year of the IRA Account Holder's death. The distribution period is the distribution period obtained from the divisor listed on the Single Life Table next to the Designated Beneficiary's age (or the age of the oldest Designated Beneficiary if more than one) as of his or her birthday in the year following the year of the IRA Account Holder's death, reduced by one for each year elapsed since the year following the IRA Account Holder's death or the distribution period under Section (ii)(c) below, if longer. If the sole Designated Beneficiary is the IRA Account Holder's spouse, the surviving spouse's distribution period is the period obtained from the divisor listed on the Single Life Table next to the spouse's age as of the spouse's birthday for the current year or the distribution period under Section (ii)(c) below, if longer. Upon the death of the surviving spouse beneficiary, any interest remaining after such spouse's death will continue to be distributed either over such spouse's remaining life expectancy, determined by using the divisor in the Single Life Table next to the spouse's age as of his or her birthday in the year of the spouse's death, or by using the original IRA Holder's remaining life expectancy as set forth under Section (ii)(c) below.
- (b) If the IRA Account Holder's surviving spouse is the sole Designated Beneficiary, the surviving spouse may elect to roll over the assets of the account to his or her own Roth or Traditional IRA or deem this IRA his or her own. This election will be deemed to have been made only if written notice is provided to the Custodian of the Account Holder's death and, thereafter, such surviving spouse makes a contribution to the IRA or fails to take required distributions as a beneficiary. Notwithstanding the foregoing, if the surviving spouse is the sole Designated Beneficiary by virtue of being the underlying beneficiary of a trust described in Section 2.8, he or she will not be eligible to deem this IRA as his or her own. If the surviving spouse of an IRA Holder receives a distribution from the IRA Account after the IRA Holder's death, the surviving spouse will be permitted to roll over that distribution (excluding any required minimum distribution) to an IRA in his or her own name within 60 days regardless of whether the surviving spouse is the sole Beneficiary.
- (c) If there is no Designated Beneficiary, the distribution period is the divisor listed next to the IRA Account Holder's age listed on the Single Life Table as of his or her birthday in the year of death, reduced by one for each year elapsed since the year of the IRA Account Holder's death.

#### **5.6 Reporting Responsibilities**

The IRA Account Holder agrees to provide the Custodian with information necessary for the Custodian to prepare any reports required under Sections 408(i), 408A(d)(3)(D) of the Code, and Sections 1.408-5 and 1.408-6 of the final Treasury Regulations. The Custodian agrees to

submit reports to the Internal Revenue Service (IRS) and the IRA Account Holder (or Beneficiary[ies] upon the IRA Account Holder's death) as prescribed by the IRS, and any additional reports the Custodian may choose to deliver. The Custodian shall furnish annual calendar-year reports concerning the status of the IRA Account and such information concerning required minimum distributions as prescribed by the Commissioner of Internal Revenue. If the IRA Account Holder does not notify the Custodian in writing of any errors or omissions in the reports or statements within 60 days following the mailing or electronic delivery of such reports or statements to the last known address of the IRA Account Holder (or Beneficiary[ies] upon the death of the IRA Account Holder), which the Custodian has in its files, such reports or statements will be considered accurate and approved by the IRA Account Holder (or Beneficiary[ies], if applicable) and the Custodian shall be released from all liability concerning all information contained in the reports or statements to anyone, including the spouse or Beneficiary(ies).

#### **5.7 Representations and Responsibilities**

The IRA Account Holder represents and warrants to the Custodian that any information the IRA Account Holder has given or will give to the Custodian with respect to this Agreement is complete and accurate. Further, the IRA Account Holder agrees that any directions the IRA Account Holder gives, or action the IRA Account Holder takes, will be proper under this Agreement and that the Custodian is entitled to rely upon any such information or directions. The Custodian shall not be responsible for losses of any kind that may result from the IRA Account Holder's directions, actions or failures to act, and the IRA Account Holder agrees to reimburse the Custodian for any loss it may incur as a result of such directions, actions or failures to act. The Custodian shall not be responsible for any penalties, taxes, judgments or expenses the IRA Account Holder incurs in connection with this IRA. The Custodian has no duty to determine whether the contributions or distributions comply with the Code, regulations, rulings or this Agreement. The Custodian shall be fully protected in acting on any instrument, certificate, or form it believes is genuine and signed or presented by the proper people. The Custodian shall not be required to investigate or inquire about any statement contained in such documents and may accept these documents as true and accurate. At all times, the IRA Account Holder must indemnify and hold the Custodian harmless from any liability that may arise under this IRA, except a liability caused by the Custodian's gross negligence or willful misconduct.

#### **5.8 Account Service Fees**

The Custodian has the right to charge an annual service fee or other designated fees (for example, a transfer, rollover or termination fee) for maintaining this IRA. In addition, the Custodian has the right to be reimbursed for all reasonable expenses incurred in connection with the administration of this IRA. The Custodian may charge the IRA Account Holder separately for any fees or expenses together with any taxes, plus interest and penalties, assessed against the IRA. Unless the IRA Account Holder objects and directs a reasonable alternative payment, the Custodian may deduct the amount of the fees, expenses or taxes from the assets in the IRA. The Custodian reserves the right to charge any additional fee upon 30 days' notice to the IRA Account Holder that the fee will be effective. If the IRA Account Holder has multiple IRAs with the Custodian, the Custodian will allocate these fees or expenses to the separate IRA to which they directly relate, as reasonably determined by the Custodian, or, with respect to fees or expenses that the Custodian reasonably deems to have no direct relationship to a separate IRA, among the separate IRAs on a ratable basis.

Any brokerage commissions attributable to the assets in the IRA will be charged to the IRA. The IRA Account Holder cannot reimburse the IRA for those commissions. The IRA Account Holder must pay on demand any debit balance or other obligation owed to the Custodian.

#### **5.9 Notices and Change of Address**

Any required notice regarding this IRA will be considered effective when mailed by the Custodian to the last known address of the intended recipient that the Custodian has in its records. Any notice to be given to the Custodian will be considered effective when actually received. The IRA Account Holder must notify the Custodian of any change of address.



### 5.10 Resignation or Removal of Custodian

**A. Resignation.** Schwab may resign as Custodian of the IRA by mailing or actually delivering written notice to the IRA Account Holder 60 days before its resignation.

**B. Removal.** To remove Schwab as Custodian, the IRA Account Holder must mail or actually deliver written notice to Schwab 60 days before removal. The IRA Account Holder must also appoint and qualify a successor Custodian or trustee. The party entitled to the notification (either for resignation or removal) may waive the 60-day notice period.

**C. Successor Custodian or Trustee.** On the resignation or removal of Schwab as Custodian, the IRA Account Holder must appoint a successor Custodian or trustee. The successor Custodian or trustee will have all the same rights, powers, privileges, liabilities, and duties that Schwab has as Custodian. When the appointment of the successor Custodian or trustee is accepted, Schwab will assign, transfer and deliver to the successor all assets held in the IRA. However, Schwab is authorized to reserve enough funds as it considers advisable to pay expenses and fees that are due or may be incurred during the settlement of the IRA. Schwab will pay any balance that remains after settling the IRA to the successor Custodian or trustee.

**D. Failing to Appoint Successor.** If the IRA Account Holder does not appoint a successor within 30 days after receiving Schwab's resignation as Custodian, Schwab may appoint a successor Custodian or trustee, or terminate the IRA. If Schwab terminates the IRA, Schwab will distribute the assets according to the provisions of Section 5.13C that apply. When Schwab completes this distribution, Schwab will be relieved of any liability for the assets in the IRA.

**E. Substitution of Custodian.** The non-bank Custodian must substitute another Trustee or Custodian for Schwab if the IRS notifies the non-bank Custodian to do so because of the following reasons:

- (i) Schwab is not keeping records, making returns or issuing statements as required; or
- (ii) Schwab failed to comply with other requirements under Treasury Regulation Section 1.408-2(e).

### 5.11 Liquidation of Assets

The Custodian has the right to liquidate assets in this IRA if necessary to make distributions or to pay fees, expenses or taxes properly chargeable against this IRA. If the IRA Account Holder fails, after notice, to direct the Custodian as to which assets to liquidate, the Custodian will liquidate assets in the IRA in the following order:

- (i) Any shares of a money market fund or money market-type fund or bank deposit accounts at an FDIC-insured depository institution affiliated with Schwab;
- (ii) Securities;
- (iii) Other assets.

### 5.12 Governing Law

This Agreement will be governed by and interpreted according to all applicable Federal laws and regulations, and to the extent such laws and regulations apply, to California laws and regulations.

If any part of this Agreement is held to be illegal or invalid, the remaining parts shall not be affected. Neither the IRA Account Holder nor the Custodian's failure to enforce at any time or for any period of time any of the provisions of this Agreement shall be construed as a waiver of such provisions, or either party's right thereafter to enforce each and every such provision.

### 5.13 Amendment and Termination

**A. Required Changes.** The Custodian may amend or terminate this Agreement anytime, as legally allowed, without obtaining the consent of the IRA Account Holder, the spouse or Beneficiary.

- (i) An amendment generally will not decrease any benefit to which the IRA Account Holder is entitled from contributions before the amendment.
- (ii) However, the Custodian is expressly authorized to make any necessary amendments, retroactive to the later of the Agreement's effective date

or the effective date of any future legal requirements, if the Custodian must amend the Plan to conform to:

- (a) current or future requirements of the Employee Retirement Income Security Act of 1974 (ERISA);
- (b) Code Section 408; or
- (c) other applicable law, regulation or ruling.

**B. Other Changes.** The Custodian may amend this Agreement anytime by obtaining the IRA Account Holder's consent. The Custodian will notify the IRA Account Holder in writing of any proposed changes, and the IRA Account Holder will have 30 days after receiving the Custodian's notice to give the Custodian the IRA Account Holder's denial. If the IRA Account Holder does not notify the Custodian within the 30-day period, the IRA Account Holder indicates consent to the Custodian's proposed changes.

**C. Distribution After Termination.** If the Agreement is terminated for any reason, the Custodian will distribute the balance held in the IRA to the successor Custodian or trustee whom the IRA Account Holder or Beneficiary designates, as soon as administratively feasible. If the IRA Account Holder or Beneficiary have not designated a successor, or the Custodian has not appointed one, as described in Section 5.10E above, the Custodian will distribute the IRA balance directly to the IRA Account Holder in a single payment.

### 5.14 Transfers

The IRA Account Holder may transfer funds held in another IRA or individual retirement annuity to a Schwab IRA. The IRA Account Holder may also ask the Custodian to transfer funds held in this IRA to another IRA or a retirement annuity. The IRA Account Holder must submit a request to the Custodian in writing by completing an Account Transfer Form. If stated in a divorce decree or in a written instruction related to divorce, the IRA Account Holder may transfer all or part of his or her IRA to a former spouse. Schwab will hold the transferred amount for the benefit of the former spouse according to the Agreement's terms and conditions.

## Charles Schwab & Co., Inc. Individual Retirement Plan Disclosure Statement

This Disclosure Statement explains the rules governing the type of Schwab IRA ("IRA Plan") you designated on the Account Application. The term "IRA" will be used in this Disclosure Statement to refer to a Traditional IRA [under Internal Revenue Code (the "Code") Section 408(a)], a Roth IRA (under Section 408A of the Code), and a SEP-IRA (under Section 408(k) of the Code), unless specified otherwise. This Disclosure Statement is intended to describe the IRA Plan accurately. But if this statement differs in any way from the provisions of the IRA Plan, the provisions contained in the IRA Plan document will apply.

If you have any questions about the information contained in this publication or any of our products and services, call us at our toll-free number: 1-800-435-4000.

### Right to Revoke Your IRA

If you received this Disclosure Statement at the time you established your IRA, you have the right to revoke your IRA within seven days of the receipt of the Disclosure Statement. If, instead, Schwab mails the Disclosure Statement to you, we assume you will receive a copy of the Disclosure Statement three days after we mail it to you. To revoke your IRA, you must mail or personally deliver a written notice to any Schwab office. If you mail your notice, we consider it mailed on the postmarked date (or, if sent by certified or registered mail, the date of the certification or registration) if you deposit it, properly addressed, in the U.S. mail with first-class postage. Your notice won't be valid unless Schwab receives your notice within the seven-day period. If Schwab makes changes to its Disclosure Statement or IRA during the seven-day revocation period, Schwab will inform you of the change and give you the option to revoke your agreement for an additional seven-day period. If your IRA is revoked, you are entitled to a full return of the contribution you made to your IRA without penalty, service charge, administrative expenses, or

any other reduction. Schwab will not make any adjustment for fluctuations in the market.

## Requirements of an IRA

### A. Cash Contributions.

Your contribution must be in cash, unless it is a rollover contribution.

### B. Maximum Traditional IRA Contribution.

The total amount you may contribute to a Traditional IRA for any taxable year cannot exceed the lesser of 100% of your compensation or \$5,500 (for 2014 and 2015), with possible cost-of-living adjustments each year thereafter. If you also maintain a Roth IRA (i.e., an IRA subject to the limits of Section 408A of the Code, the maximum contribution to your Traditional IRA(s) is reduced by any contributions you make to your Roth IRA(s). Your total annual contribution to all Traditional IRAs and Roth IRAs cannot exceed the lesser of the dollar amounts described above or 100% of your compensation.

### C. Maximum Roth IRA Contribution.

The total amount you may contribute to a Roth IRA for any taxable year cannot exceed the lesser of 100% of your compensation or \$5,500 (for 2014 and 2015), with possible cost-of-living adjustments each year thereafter. If you also maintain a Traditional IRA (i.e., an IRA subject to the limits of Internal Revenue Code Sections (IRC Secs. 408(a) or 408(b))), the maximum contribution to your Roth IRA(s) is reduced by any contributions you make to your Traditional IRA(s). Your total annual contribution to all Roth IRAs and Traditional IRAs cannot exceed the lesser of the dollar amounts described above or 100% of your compensation.

Your Roth IRA contribution is further limited if your modified adjusted gross income (MAGI) equals or exceeds \$181,000 (for 2014) or \$183,000 (for 2015) if you are a married individual filing a joint income tax return, or equals or exceeds \$114,000 (for 2014) or \$116,000 (for 2015) if you are a single individual. Married individuals filing a joint income tax return with MAGI equaling or exceeding \$191,000 (for 2014) or \$193,000 (for 2015) may not fund a Roth IRA. Single individuals with MAGI equaling or exceeding \$129,000 (for 2014) or \$131,000 (for 2015) may not fund a Roth IRA. Married individuals filing a separate income tax return with MAGI equaling or exceeding \$10,000 may not fund a Roth IRA. The MAGI limits described above are subject to cost-of-living increases for tax years beginning after 2015.

If you are married filing a joint income tax return and your MAGI is between the applicable MAGI phase-out range for the year, your maximum Roth IRA contribution is determined as follows: (1) Begin with the appropriate MAGI maximum for the applicable year and subtract your MAGI; (2) divide this total by the difference between the phase-out range maximum and minimum; and (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. For example, if you are age 30, with MAGI of \$188,000, your maximum Roth IRA contribution for 2015 is \$2,750 [(\$193,000 minus \$188,000) divided by \$10,000 and multiplied by \$5,500].

If you are single and your MAGI is between the applicable MAGI phase-out range for the year, your maximum Roth IRA contribution is determined as follows: (1) Begin with the appropriate MAGI phase-out maximum for the applicable year and subtract your MAGI; (2) divide this total by the difference between the phase-out range maximum and minimum; and (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. For example, if you are age 30, with MAGI of \$119,000, your maximum Roth IRA contribution for 2015 is \$4,400 [(\$131,000 minus \$119,000) divided by \$15,000 and multiplied by \$5,500].

### D. Traditional IRA Contribution Eligibility.

You are eligible to make a regular contribution to your IRA if you have compensation and have not attained age 70½ by the end of the taxable year for which the contribution is made.

### E. Roth IRA Contribution Eligibility.

You are eligible to make a regular contribution to your Roth IRA, regardless of your age, if you have compensation and your MAGI is below the maximum threshold. Your Roth IRA contribution is not limited by your

participation in an employer-sponsored retirement plan, other than a Traditional IRA.

### F. Catch-Up Contributions.

If you are age 50 or older by the close of the taxable year, you may make an additional contribution to your IRA. The maximum additional contribution is \$1,000 per year.

### G. Nonforfeitable.

Your interest in your IRA is non-forfeitable. This means that the full balance in your IRA belongs to you. But we may assess reasonable fees and expenses against your IRA balance.

### H. Eligible Custodians.

The custodian of your IRA must be a bank, savings and loan association, credit union, or a person or entity, such as Schwab, approved by the Secretary of the Treasury.

### I. Commingling Assets.

The assets of your IRA cannot be commingled with other property except in a common trust fund or common investment fund.

### J. Life Insurance.

No portion of your IRA may be invested in life insurance contracts.

### K. Collectibles.

You may not invest the assets of your IRA in collectibles (within the meaning of IRC Sec. 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Internal Revenue Service (IRS). However, specially minted United States gold and silver coins, and certain state-issued coins are permissible investments. Platinum coins and certain gold, silver, platinum, or palladium bullion (as described in IRC Sec. 408(m)(3)) are also permitted as IRA investments.

### L. Required Minimum Distributions and Beneficiary Options for Traditional IRAs.

You are required to take minimum distributions from your IRA at certain times in accordance with Treasury Regulation 1.408-8. Below is a summary of the IRA distribution rules:

1. You are required to take a minimum distribution from your IRA for the year in which you reach age 70½ and for each year thereafter. You must take your first distribution by your required beginning date, which is April 1 of the year following the year you attain age 70½. The minimum distribution for any taxable year is equal to the amount obtained by dividing the account balance at the end of the prior year by the applicable divisor.
2. The applicable divisor generally is determined using the Uniform Lifetime Table provided by the IRS. If your spouse is your sole designated beneficiary for the entire calendar year, and is more than 10 years younger than you, the required minimum distribution is determined each year using the actual joint life expectancy of you and your spouse obtained from the Joint Life Expectancy Table provided by the IRS, rather than the life expectancy divisor from the Uniform Lifetime Table.

We reserve the right to do any one of the following by April 1 of the year following the year in which you turn age 70½:

- (a) Make no distribution until you give us a proper withdrawal request;
- (b) Distribute your entire IRA to you in a single sum payment; or
- (c) Determine your required minimum distribution each year based on your life expectancy calculated using the Uniform Lifetime Table, and pay those distributions to you until you direct otherwise.

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

3. Your designated beneficiary(ies) is determined based on the beneficiaries designated as of the date of your death, who remain your beneficiaries as of September 30 of the year following the year of your death.

If you die on or after your required beginning date, distributions must be made to your beneficiaries over the longer of the single life expectancy of your designated beneficiaries, or your remaining life expectancy. If a beneficiary other than a person or qualified trust as defined in the Treasury Regulations is named, you will be treated as having no designated beneficiary of your IRA for purposes of determining the distribution period. If there is no designated beneficiary of your IRA, distributions will commence using your single life expectancy, reduced by one in each subsequent year. If you die before your required beginning date, the entire amount remaining in your account will, at the election of your designated beneficiaries, either (a) be distributed by December 31 of the year containing the fifth anniversary of your death, or (b) be distributed over the remaining life expectancy of your designated beneficiaries.

If your spouse is your sole designated beneficiary, he or she must elect either option (a) or (b) by the earlier of December 31 of the year containing the fifth anniversary of your death, or December 31 of the year life expectancy payments would be required to begin. Your designated beneficiaries, other than a spouse who is the sole designated beneficiary, must elect either option (a) or (b) by December 31 of the year following the year of your death. If no election is made, distribution will be calculated in accordance with option (b). In the case of distributions under option (b), distributions must commence by December 31 of the year following the year of your death. Generally, if your spouse is the designated beneficiary, distributions need not commence until December 31 of the year you would have attained age 70½, if later. If a beneficiary other than a person or qualified trust as defined in the Treasury Regulations is named, you will be treated as having no designated beneficiary of your IRA for purposes of determining the distribution period. If there is no designated beneficiary of your IRA, the entire IRA must be distributed by December 31 of the year containing the fifth anniversary of your death.

A spouse who is the sole designated beneficiary of your entire IRA will be deemed to elect to treat your IRA as his or her own by either (1) making contributions to your IRA or (2) failing to timely remove a required minimum distribution from your IRA. Regardless of whether or not the spouse is the sole designated beneficiary of your IRA, a spouse beneficiary may roll over his or her share of the assets to his or her own IRA.

If we so choose, for any reason (e.g., due to limitations of our charter or bylaws), we may require that a beneficiary of a deceased IRA owner take total distribution of all IRA assets by December 31 of the year following the year of death.

If your beneficiary fails to remove a required minimum distribution after your death, an additional penalty tax of 50% is imposed on the amount of the required minimum distribution that should have been taken but was not. Your beneficiary must file IRS Form 5329 along with his or her income tax return to report and remit any additional taxes to the IRS.

#### **M. Required Minimum Distributions for Roth IRAs.**

You are not required to take distributions from your Roth IRA at age 70½ [as required for Traditional and Savings Incentive Match Plans for Employees of small employers (SIMPLE) IRAs]. However, your beneficiaries generally are required to take distributions from your Roth IRA after your death. See the section titled Beneficiary Payouts in this Disclosure Statement regarding beneficiaries' required minimum distributions.

#### **N. Qualifying Longevity Annuity Contracts and RMDs.**

A qualifying longevity annuity contract (QLAC) is a deferred annuity contract that, among other requirements, must guarantee lifetime income starting no later than age 85. The total premiums paid to QLACs in your IRAs must not exceed 25% (up to \$125,000) of the combined value of your IRAs (excluding Roth IRAs). The \$125,000 limit is subject to cost-of-living adjustments each year.

When calculating your RMD, you may reduce the prior year-end account value by the value of QLACs that your IRA holds as investments.

For more information on QLACs, you may wish to refer to the IRS website at [www.irs.gov](http://www.irs.gov).

#### **O. Beneficiary Options for Roth IRAs.**

Your designated beneficiary(ies) is determined based on the beneficiaries designated as of the date of your death, who remain your beneficiaries as of September 30 of the year following the year of your death. The entire amount remaining in your account will, at the election of your designated beneficiaries, either:

1. Be distributed by December 31 of the year containing the fifth anniversary of your death, or
2. Be distributed over the remaining life expectancy of your designated beneficiaries.

If your spouse is your sole designated beneficiary, he or she must elect either option (1) or (2) by the earlier of December 31 of the year containing the fifth anniversary of your death, or December 31 of the year life expectancy payments would be required to begin. Your designated beneficiaries, other than a spouse who is the sole designated beneficiary, must elect either option (1) or (2) by December 31 of the year following the year of your death. If no election is made, distribution will be calculated in accordance with option (2). In the case of distributions under option (2), distributions must commence by December 31 of the year following the year of your death. Generally, if your spouse is the designated beneficiary, distributions need not commence until December 31 of the year you would have attained age 70½, if later. If a beneficiary other than a person or qualified trust as defined in the Treasury Regulations is named, you will be treated as having no designated beneficiary of your Roth IRA for purposes of determining the distribution period. If there is no designated beneficiary of your Roth IRA, the entire Roth IRA must be distributed by December 31 of the year containing the fifth anniversary of your death.

A spouse who is the sole designated beneficiary of your entire Roth IRA 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. Regardless of whether or not the spouse is the sole designated beneficiary of your Roth IRA, a spouse beneficiary may roll over his or her share of the assets to his or her own Roth IRA.

If we so choose, for any reason (e.g., due to limitations of our charter or bylaws), we may require that a beneficiary of a deceased Roth IRA owner take total distribution of all Roth IRA assets by December 31 of the year following the year of death.

If your beneficiary fails to remove a required minimum distribution after your death, an additional penalty tax of 50% is imposed on the amount of the required minimum distribution that should have been taken but was not. Your beneficiary must file IRS Form 5329 along with his or her income tax return to report and remit any additional taxes to the IRS.

#### **Income Tax Consequences of Establishing an IRA**

##### **A. Traditional IRA Deductibility.**

If you are eligible to contribute to your IRA, the amount of the contribution for which you may take a tax deduction will depend upon whether you (or, in some cases, your spouse) are an active participant in an employer-sponsored retirement plan. If you (and your spouse, if married) are not an active participant, your entire IRA contribution will be deductible. If you are an active participant (or are married to an active participant), the deductibility of your IRA contribution will depend on your MAGI and your tax-filing status for the tax year for which the contribution was made. MAGI is determined on your income tax return using your adjusted gross income but disregarding any deductible IRA contribution and certain other deductions and exclusions.

**Definition of Active Participant.** Generally, you will be an active participant if you are covered by one or more of the following employer-sponsored retirement plans:

1. Qualified pension, profit-sharing, 401(k), or stock bonus plan
2. Qualified annuity plan of an employer
3. Simplified Employee Pension (SEP) plan



4. Retirement plan established by the federal government, a state, or a political subdivision (except certain unfunded deferred compensation plans under IRC Sec. 457)
5. Tax-sheltered annuity for employees of certain tax-exempt organizations or public schools
6. Plan meeting the requirements of IRC Sec. 501(c)(18)
7. Savings Incentive Match Plan for Employees (SIMPLE) IRA plan or a SIMPLE 401(k) plan

If you do not know whether your employer maintains one of these plans or whether you are an active participant in a plan, check with your employer or your tax advisor. Also, the IRS Form W-2, Wage and Tax Statement that you receive at the end of the year from your employer will indicate whether you are an active participant.

If you are an active participant, are single, and have MAGI within the applicable phase-out range listed below, the deductible amount of your contribution is determined as follows: (1) Begin with the appropriate phase-out range maximum for the applicable year (specified below) and subtract your MAGI; (2) divide this total by the difference between the phase-out maximum and minimum; and (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take. For example, if you are age 30, with MAGI of \$63,000 in 2015, your maximum deductible contribution is \$4,400 (the 2015 phase-out range maximum of \$71,000 minus your MAGI of \$63,000, divided by the difference between the maximum and minimum phase-out range limits of \$10,000, and multiplied by the contribution limit of \$5,500).

If you are an active participant, are married to an active participant, and you file a joint income tax return, and have MAGI within the applicable phase-out range listed below, the deductible amount of your contribution is determined as follows: (1) Begin with the appropriate phase-out maximum for the applicable year (specified below) and subtract your MAGI; (2) divide this total by the difference between the phase-out range maximum and minimum; and (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take. For example, if you are age 30, with MAGI of \$103,000 in 2015, your maximum deductible contribution is \$4,125 (the 2015 phase-out maximum of \$118,000 minus your MAGI of \$103,000, divided by the difference between the maximum and minimum phase-out limits of \$20,000, and multiplied by the contribution limit of \$5,500).

If you are an active participant, are married, and you file a separate income tax return, your MAGI phase-out range is generally \$0–\$10,000. However, if you lived apart for the entire tax year, you are treated as a single filer.

| Tax Year | Joint Filers' Phase-Out Range* | Single Taxpayers' Phase-Out Range* |
|----------|--------------------------------|------------------------------------|
|          | (Minimum–Maximum)              | (Minimum–Maximum)                  |
| 2010     | \$89,000–\$109,000             | \$56,000–\$66,000                  |
| 2011     | \$90,000–\$110,000             | \$56,000–\$66,000                  |
| 2012     | \$92,000–\$112,000             | \$58,000–\$68,000                  |
| 2013     | \$95,000–\$115,000             | \$59,000–\$69,000                  |
| 2014     | \$96,000–\$116,000             | \$60,000–\$70,000                  |
| 2015     | \$98,000–\$118,000             | \$61,000–\$71,000                  |

\*MAGI limits are subject to cost-of-living adjustments each year.

The MAGI phase-out range for an individual who is not an active participant, but is married to an active participant, is \$181,000–\$191,000 for 2014, and \$183,000–\$193,000 for 2015. This limit is also subject to cost-of-living increases for tax years after 2015. If you are not an active participant in an employer-sponsored retirement plan, are married to someone who is an active participant, and you file a joint income tax return with MAGI between the applicable phase-out range for the year,

your maximum deductible contribution is determined as follows: (1) Begin with the appropriate MAGI phase-out maximum for the year and subtract your MAGI; (2) divide this total by the difference between the phase-out range maximum and minimum; and (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take.

You must round the resulting deduction to the next highest \$10 if the number is not a multiple of 10. If your resulting deduction is between \$0 and \$200, you may round up to \$200.

#### B. Contributions Not Deducted for Roth IRAs.

No deduction is allowed for Roth IRA contributions, including transfers, rollovers, and conversion contributions.

#### C. Contribution Deadline.

The deadline for making an IRA contribution is your tax return due date (not including extensions). You may designate a contribution as a contribution for the preceding taxable year in a manner acceptable to us. For example, if you are a calendar-year taxpayer and you make your IRA contribution on or before your tax-filing deadline, your contribution is considered to have been made for the previous tax year if you designate it as such.

If you are a member of the armed forces serving in a combat zone, hazardous duty area, or contingency operation, you may have an extended contribution deadline of 180 days after the last day served in the area. In addition, your contribution deadline for a particular tax year is also extended by the number of days that remained to file that year's tax return as of the date you entered the combat zone. This additional extension to make your IRA contribution cannot exceed the number of days between January 1 and your tax-filing deadline, not including extensions.

#### D. Tax Credit for Contributions.

You may be eligible to receive a tax credit for your Traditional IRA contributions. This credit will be allowed in addition to any tax deduction that may apply, and may not exceed \$1,000 in a given year. You may be eligible for this tax credit if you are:

- Age 18 or older as of the close of the taxable year,
- Not a dependent of another taxpayer, and
- Not a full-time student.

The credit is based upon your income (see chart below), and will range from 0%–50% of eligible contributions. In order to determine the amount of your contributions, add all of the contributions made to your Traditional IRA and reduce these contributions by any distributions that you have taken during the testing period. The testing period begins two years prior to the year for which the credit is sought and ends on the tax return due date (including extensions) for the year for which the credit is sought. In order to determine your tax credit, multiply the applicable percentage from the chart below by the amount of your contributions that do not exceed \$2,000.

| 2015 Adjusted Gross Income* |                     |                   |                       |
|-----------------------------|---------------------|-------------------|-----------------------|
| Joint Return                | Head of a Household | All Other Cases   | Applicable Percentage |
| \$1–\$36,500                | \$1–\$27,375        | \$1–\$18,250      | 50%                   |
| \$36,501–\$39,500           | \$27,376–\$29,625   | \$18,251–\$19,750 | 20%                   |
| \$39,501–\$61,000           | \$29,626–\$45,750   | \$19,751–\$30,500 | 10%                   |
| Over \$61,000               | Over \$45,750       | Over \$30,500     | 0%                    |

\*Adjusted gross income (AGI) includes foreign earned income and income from Guam, America Samoa, North Mariana Islands, and Puerto Rico. AGI limits are subject to cost-of-living adjustments each year.

#### E. Excess Contributions.

An excess contribution is any amount that is contributed to your IRA that exceeds the amount that you are eligible to contribute. If the



excess is not corrected in a timely manner, an additional penalty tax of 6% will be imposed upon the excess amount. The procedure for correcting an excess is determined by the timeliness of the correction as identified below.

1. **Removal Before Your Tax-Filing Deadline.** An excess contribution may be corrected by withdrawing the excess amount, along with the earnings attributable to the excess, before your tax-filing deadline, including extensions, for the year for which the excess contribution was made. An excess withdrawn under this method is not taxable to you, but you must include the earnings attributable to the excess in your taxable income in the year in which the contribution was made. The 6% excess contribution penalty tax will be avoided.
2. **Removal After Your Tax-Filing Deadline.** If you are correcting an excess contribution after your tax-filing deadline, including extensions, remove only the amount of the excess contribution. The 6% excess contribution penalty tax will be imposed on the excess contribution for each year it remains in the IRA. An excess withdrawal under this method will only be taxable to you if the total contributions made in the year of the excess exceed the annual applicable contribution limit.
3. **Carry Forward to a Subsequent Year.** If you do not withdraw the excess contribution, you may carry forward the contribution for a subsequent tax year. To do so, you under-contribute for that tax year and carry the excess contribution amount forward to that year on your tax return. The 6% excess contribution penalty tax will be imposed on the excess amount for each year that it remains as an excess contribution at the end of the year.

You must file IRS Form 5329 along with your income tax return to report and remit any additional taxes to the IRS.

#### F. Tax-Deferred Earnings.

The investment earnings of your IRA are not subject to federal income tax until distributions are made (or, in certain instances, when distributions are deemed to be made).

#### G. Nondeductible Contributions.

You may make nondeductible contributions to your IRA to the extent that deductible contributions are not allowed. The sum of your deductible and nondeductible IRA contributions cannot exceed your contribution limit (the lesser of the allowable contribution limit described previously, or 100% of your compensation). You may elect to treat deductible IRA contributions as nondeductible contributions.

If you make nondeductible contributions for a particular tax year, you must report the amount of the nondeductible contribution along with your income tax return using IRS Form 8606. Failure to file IRS Form 8606 will result in a \$50-per-failure penalty.

If you overstate the amount of designated nondeductible contributions for any taxable year, you are subject to a \$100 penalty unless reasonable cause for the overstatement can be shown.

#### H. Taxation of Traditional IRA Distributions.

The taxation of IRA distributions depends on whether or not you have ever made nondeductible IRA contributions. If you have only made deductible contributions, all IRA distribution amounts will be included in income.

If you have ever made nondeductible contributions to any IRA, the following formula must be used to determine the amount of any IRA distribution excluded from income.

$$\frac{\text{(Aggregate Nondeductible Contributions)} \times \text{(Amount Withdrawn)}}{\text{Aggregate IRA Balance}} = \frac{\text{Amount Excluded}}{\text{From Income}}$$

**Note:** Aggregate nondeductible contributions include all nondeductible contributions made by you through the end of the year of the distribution that have not previously been withdrawn and excluded from income. Also note that the aggregate IRA balance includes the total balance of all of your Traditional and SIMPLE IRAs as of the end of the year of distribution and any distributions occurring during the year.

#### I. Taxation of Roth IRA Distributions.

The taxation of Roth IRA distributions depends on whether the distribution is a qualified distribution or a nonqualified distribution.

1. **Qualified Distributions.** Qualified distributions from your Roth IRA (both the contributions and earnings) are not included in your income. A qualified distribution is a distribution that is made after the expiration of the five-year period beginning January 1 of the first year for which you made a contribution to any Roth IRA (including a conversion from a Traditional IRA), and is made on account of one of the following events:

- Attainment of age 59½,
- Disability,
- First-time homebuyer purchase, or
- Death.

For example, if you made a contribution to your Roth IRA for 2007, the five-year period for determining whether a distribution is a qualified distribution would have been satisfied as of January 1, 2012.

2. **Nonqualified Distributions.** If you do not meet the requirements for a qualified distribution, any earnings you withdraw from your Roth IRA will be included in your gross income and, if you are under age 59½, may be subject to an early distribution penalty tax. However, when you take a distribution, the amounts you contributed annually to any Roth IRA and any military death gratuity or Service members' Group Life Insurance (SGLI) payments that you rolled over to a Roth IRA will be deemed to be removed first, followed by conversion and employer-sponsored retirement plan rollover contributions made to any Roth IRA on a first-in, first-out basis. Therefore, your nonqualified distributions will not be taxable to you until your withdrawals exceed the amount of your annual contributions, rollovers of your military death gratuity or SGLI payments, and your conversions and employer-sponsored retirement plan rollovers.

#### J. Income Tax Withholding.

Any withdrawal from your IRA is subject to federal income tax withholding. You may, however, elect not to have withholding apply to your IRA withdrawal. If withholding is applied to your withdrawal, not less than 10% of the amount withdrawn must be withheld.

#### K. Early Distribution Penalty Tax.

If you receive an IRA distribution before you attain age 59½, an additional early distribution penalty tax of 10% will apply to the taxable amount of the distribution, unless one of the following exceptions applies:

- (1) **Death.** After your death, payments made to your beneficiary(ies) are not subject to the 10% early distribution penalty tax.
- (2) **Disability.** If you are disabled at the time of distribution, you are not subject to the additional 10% early distribution penalty tax. In order to be disabled, a physician must determine that your impairment can be expected to result in death or to be of long, continued, and indefinite duration.
- (3) **Substantially equal periodic payments.** You are not subject to the additional 10% early distribution penalty tax if you are taking a series of substantially equal periodic payments (at least annual payments) over your life expectancy or the joint life expectancy of you and your beneficiary(ies). You must continue these payments for five years or until you reach age 59½, whichever is longer.
- (4) **Unreimbursed medical expenses.** If you take payments to pay for unreimbursed medical expenses exceeding 10% of your adjusted gross income, you will not be subject to the 10% early distribution penalty tax. The medical expenses may be for you, your spouse, or any dependent listed on your tax return.
- (5) **Health insurance premiums.** If you are unemployed and have received unemployment compensation for 12 consecutive weeks under a federal or state program, you may take payments from your IRA to pay

for health insurance premiums without incurring the 10% early distribution penalty tax.

**(6) Higher education expenses.** Payments taken for certain qualified higher education expenses for you, your spouse, or the children or grandchildren of you or your spouse, will not be subject to the 10% early distribution penalty tax.

**(7) First-time homebuyer.** You may take payments from your IRA to use toward qualified acquisition costs of buying or building a principal residence. The amount you may take for this reason may not exceed a lifetime maximum of \$10,000. The payment must be used for qualified acquisition costs within 120 days of receiving the distribution.

**(8) IRS levy.** Payments from your IRA made to the U.S. government in response to a federal tax levy are not subject to the 10% early distribution penalty tax.

**(9) Qualified reservist distributions.** If you are a qualified reservist member called to active duty for more than 179 days or an indefinite period, the payments you take from your IRA during the active duty period are not subject to the 10% early distribution penalty tax.

You must file IRS Form 5329 along with your income tax return to the IRS to report and remit any additional taxes or to claim a penalty tax exception.

#### **L. Rollovers and Conversions.**

Your IRA may be rolled over to another IRA of yours, may receive rollover contributions, or may be converted to a Roth IRA, provided that all of the applicable rollover and conversion rules are followed. "Rollover" is a term used to describe a movement of cash or other property to your IRA from another IRA, or from your employer's qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, 457(b) eligible governmental deferred compensation plan, or federal Thrift Savings Plan. The amount rolled over is not subject to taxation or the additional 10% early distribution penalty tax. "Conversion" is a term used to describe the movement of Traditional IRA assets to a Roth IRA. A conversion generally is a taxable event. The general rollover and conversion rules are summarized below. These transactions are often complex. If you have any questions regarding a rollover or conversion, please see a tax advisor.

**1. Traditional IRA-to-Traditional IRA Rollovers.** Assets distributed from your Traditional IRA may be rolled over to the same Traditional IRA or another Traditional IRA of yours if the requirements of IRC Sec. 408(d)(3) are met. A proper IRA-to-IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received. In the case of a distribution for a first-time homebuyer where there was a delay or cancellation of the purchase, the 60-day rollover period may be extended to 120 days.

**Effective for distributions taken on or after January 1, 2015,** you are permitted to roll over only one distribution from an IRA (Traditional, Roth, or SIMPLE) in a 12-month period, regardless of the number of IRAs you own. A distribution may be rolled over to the same IRA or to another IRA that is eligible to receive the rollover. For more information on rollover limitations, you may wish to obtain IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), from the IRS or refer to the IRS website at [www.irs.gov](http://www.irs.gov).

**2. SIMPLE IRA-to-Traditional IRA Rollovers.** Assets distributed from your SIMPLE IRA may be rolled over to your Traditional IRA without IRS penalty tax provided two years have passed since you first participated in a SIMPLE IRA plan sponsored by your employer. As with Traditional IRA to Traditional IRA rollovers, the requirements of IRC Sec. 408(d)(3) must be met. A proper SIMPLE IRA-to-IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received.

**Effective for distributions taken on or after January 1, 2015,** you are permitted to roll over only one distribution from an IRA (Traditional, Roth, or SIMPLE) in a 12-month period, regardless of the number of IRAs you own. A distribution may be rolled over to the same IRA or to another IRA that is eligible to receive the rollover. For more

information on rollover limitations, you may wish to obtain IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), from the IRS or refer to the IRS website at [www.irs.gov](http://www.irs.gov).

**3. Roth IRA-to-Roth IRA Rollovers.** Assets distributed from your Roth IRA may be rolled over to the same Roth IRA or another Roth IRA of yours if the requirements of IRC Sec. 408(d)(3) are met. A proper Roth IRA-to-Roth IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received. In the case of a distribution for a first-time homebuyer where there was a delay or cancellation of the purchase, the 60-day rollover period may be extended to 120 days. Roth IRA assets may not be rolled over to other types of IRAs (e.g., Traditional IRA, SIMPLE IRA), or employer-sponsored retirement plans.

**Effective for distributions taken on or after January 1, 2015,** you are permitted to roll over only one distribution from an IRA (Traditional, Roth, or SIMPLE) in a 12-month period, regardless of the number of IRAs you own. A distribution may be rolled over to the same IRA or to another IRA that is eligible to receive the rollover. For more information on rollover limitations, you may wish to obtain IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), from the IRS or refer to the IRS website at [www.irs.gov](http://www.irs.gov).

**4. Employer-Sponsored Retirement Plan-to-Traditional IRA Rollovers.** You may roll over, directly or indirectly, any eligible rollover distribution from an eligible employer-sponsored retirement plan. An eligible rollover distribution is defined generally as any distribution from a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, 457(b) eligible governmental deferred compensation plan (other than distributions to non-spousal beneficiaries), or federal Thrift Savings Plan unless it is part of a certain series of substantially equal periodic payments, a required minimum distribution, a hardship distribution, or a distribution of Roth elective deferrals from a 401(k), 403(b), governmental 457(b), or federal Thrift Savings Plan.

If you elect to receive your rollover distribution prior to placing it in an IRA, thereby conducting an indirect rollover, your plan administrator generally will be required to withhold 20% of your distribution as a payment of income taxes. When completing the rollover, you may make up out of pocket the amount withheld, and roll over the full amount distributed from your employer-sponsored retirement plan. To qualify as a rollover, your eligible rollover distribution must be rolled over to your IRA not later than 60 days after you receive the distribution. Alternatively, you may claim the withheld amount as income, and pay the applicable income tax, and if you are under age 59½, the 10% early distribution penalty tax (unless an exception to the penalty applies).

As an alternative to the indirect rollover, your employer generally must give you the option to directly roll over your employer-sponsored retirement plan balance to an IRA. If you elect the direct rollover option, your eligible rollover distribution will be paid directly to the IRA (or other eligible employer-sponsored retirement plan) that you designate. The 20% withholding requirements do not apply to direct rollovers.

**5. Traditional IRA-to-Employer-Sponsored Retirement Plan.** You may roll over, directly or indirectly, any taxable eligible rollover distribution from an IRA to your qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan as long as the employer-sponsored retirement plan accepts such rollover contributions.

**6. Rollovers of Roth Elective Deferrals.** Roth elective deferrals distributed from a 401(k) cash or deferred arrangement, 403(b) tax-sheltered annuity, 457(b) eligible governmental deferred compensation plan, or federal Thrift Savings Plan may be rolled into your Roth IRA.

**7. Traditional IRA-to-Roth IRA Conversions.** If you convert to a Roth IRA, the amount of the conversion from your Traditional IRA to your

Roth IRA will be treated as a distribution for income tax purposes, and is includible in your gross income (except for any nondeductible contributions). Although the conversion amount generally is included in income, the 10% early distribution penalty tax will not apply to conversions from a Traditional IRA to a Roth IRA, regardless of whether you qualify for any exceptions to the 10% penalty tax. If you are age 70½ or older you must remove your required minimum distribution before converting your Traditional IRA.

**8. SIMPLE IRA-to-Roth IRA Conversions.** You are eligible to convert all or any portion of your existing SIMPLE IRA into your Roth IRA, provided two years have passed since you first participated in a SIMPLE IRA plan sponsored by your employer. The amount of the conversion from your SIMPLE IRA to your Roth IRA will be treated as a distribution for income tax purposes and is includible in your gross income. Although the conversion amount generally is included in income, the 10% early distribution penalty tax will not apply to conversions from a SIMPLE IRA to a Roth IRA, regardless of whether you qualify for any exceptions to the 10% early distribution penalty tax. If you are age 70½ or older, you must remove your required minimum distribution before converting your SIMPLE IRA.

**9. Employer-Sponsored Retirement Plan-to-Roth IRA Rollovers.** Assets distributed from your qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, 457(b) eligible governmental deferred compensation plan, or federal Thrift Savings Plan may be rolled over to your Roth IRA. If you are a spouse, non-spouse, or qualified trust beneficiary who has inherited a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan, 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. Although the rollover amount generally is included in income, the 10% early distribution penalty tax will not apply to rollovers from eligible employer-sponsored retirement plans to a Roth IRA or inherited Roth IRA, regardless of whether you qualify for any exceptions to the 10% early distribution penalty tax.

**10. Beneficiary Rollovers From Employer-Sponsored Retirement Plans.** If you are a spouse, non-spouse, or qualified trust beneficiary of a deceased employer-sponsored retirement plan participant, you may directly roll over inherited assets from a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan to an inherited IRA. The IRA must be maintained as an inherited IRA, subject to the beneficiary distribution requirements.

**11. Beneficiary Rollovers From 401(k), 403(b), or 457(b) Eligible Governmental Plans Containing Roth Elective Deferrals.** If you are a spouse, non-spouse, or qualified trust beneficiary of a deceased 401(k), 403(b), or 457(b) eligible governmental deferred compensation plan participant who had made Roth elective deferrals to the plan, you may directly roll over the Roth elective deferrals and their earnings to an inherited Roth IRA. The Roth IRA must be maintained as an inherited Roth IRA, subject to the beneficiary distribution requirements.

**12. Rollovers of Military Death Benefits.** If you receive or have received a military death gratuity or a payment from the SGLI program, you may be able to roll over the proceeds to your Roth IRA. The rollover contribution amount is limited to the sum of the death benefits or SGLI payment received, less any such amount that was rolled over to a Coverdell Education Savings Account. Proceeds must be rolled over within one year of receipt of the gratuity or SGLI payment for deaths occurring on or after June 17, 2008. Any amount that is rolled over under this provision is considered nontaxable basis in your Roth IRA.

**13. Qualified HSA Funding Distribution.** If you are eligible to contribute to a health savings account (HSA), you may be eligible to take a one-time, tax-free, qualified HSA funding distribution from your IRA and directly deposit it in your HSA. The amount of the qualified HSA funding distribution may not exceed the maximum HSA contribution limit in effect for the type of high-deductible health plan coverage

(i.e., single or family coverage) that you have at the time of the deposit, and counts toward your HSA contribution limit for that year. For further detailed information, you may wish to obtain IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.

**14. Rollovers of Settlement Payments From Bankrupt Airlines.** If you are a qualified airline employee who has received an airline settlement payment from a commercial airline carrier under the approval of an order of a federal bankruptcy court in a case filed after September 11, 2001, and before January 1, 2007 or on November 29, 2011 you are allowed to roll over up to 90% of the proceeds into your IRA within 180 days after receipt of such amount, or 180 days after February 14, 2012. If you make such a rollover contribution, you may exclude the amount rolled over from your gross income in the taxable year in which the airline settlement payment was paid to you.

To obtain more information on this type of rollover, you may wish to visit the IRS website at [www.irs.gov](http://www.irs.gov).

**15. Rollovers of Exxon Valdez Settlement Payments.** If you receive a qualified settlement payment from Exxon Valdez litigation, you may roll over the amount of the settlement, up to \$100,000, reduced by the amount of any qualified Exxon Valdez settlement income previously contributed to a Traditional or Roth IRA or eligible retirement plan in prior taxable years. You will have until your tax return due date (not including extensions) for the year in which the qualified settlement income is received to make the rollover contribution. To obtain more information on this type of rollover, you may wish to visit the IRS website at [www.irs.gov](http://www.irs.gov).

**16. Written Election.** At the time you make a rollover to an IRA, you must designate in writing to the custodian your election to treat that contribution as a rollover. Once made, the rollover election is irrevocable.

#### **M. Transfer Due to Divorce.**

If all or any part of your IRA is awarded to your spouse or former spouse in a divorce or legal separation proceeding, the amount so awarded will be treated as the spouse's IRA (and may be transferred pursuant to a court-approved divorce decree or written legal separation agreement to another IRA of your spouse), and will not be considered a taxable distribution to you. A transfer is a tax-free direct movement of cash and/or property from one Traditional IRA to another.

#### **N. Recharacterizations.**

If you make a contribution to a Traditional IRA and later recharacterize either all or a portion of the original contribution to a Roth IRA along with net income attributable, you may elect to treat the original contribution as having been made to the Roth IRA. The same methodology applies when recharacterizing a contribution from a Roth IRA to a Traditional IRA. If you have converted from a Traditional IRA to a Roth IRA, you may recharacterize the conversion along with net income attributable back to a Traditional IRA. The deadline for completing a recharacterization is your tax-filing deadline (including any extensions) for the year for which the original contribution was made or conversion completed.

### **Limitations and Restrictions**

#### **A. SEP Plans.**

Under a SEP plan that meets the requirements of IRC Sec. 408(k), your employer may make contributions to your IRA. Your employer is required to provide you with information that describes the terms of your employer's SEP plan.

#### **B. Spousal IRA.**

If you are married and have compensation, you may contribute to an IRA established for the benefit of your spouse for any year prior to the year your spouse turns age 70½, regardless of whether or not your spouse has compensation. You may make these spousal contributions even if you are age 70½ or older. You must file a joint income tax return for the year for which the contribution is made.

The amount you may contribute to your IRA and your spouse's IRA is the lesser of 100% of your combined eligible compensation or \$11,000 (for 2014 and 2015). This amount may be increased with cost-of-living adjustments each year. However, you may not contribute more than the individual contribution limit to each IRA.

If your spouse is age 50 or older by the close of the taxable year and is otherwise eligible, you may make an additional contribution to your spouse's IRA. The maximum additional contribution is \$1,000 per year.

**C. Deduction of Rollovers and Transfers.**

A deduction is not allowed for rollover or transfer contributions.

**D. Gift Tax.**

Transfers of your IRA assets to a beneficiary made during your life and at your request may be subject to federal gift tax under IRC Sec. 2501.

**E. Special Tax Treatment.**

Capital gains treatment and 10-year income averaging authorized by IRC Sec. 402 do not apply to IRA distributions.

**F. Prohibited Transactions.**

If you or your beneficiary engage in a prohibited transaction with your IRA, as described in IRC Sec. 4975, your IRA will lose its tax-deferred status, and you must include the value of your account in your gross income for that taxable year. The following transactions are examples of prohibited transactions with your IRA: (1) taking a loan from your IRA, (2) buying property for personal use (present or future) with IRA assets, or (3) receiving certain bonuses or premiums because of your IRA.

**G. Pledging.**

If you pledge any portion of your IRA as collateral for a loan, the amount so pledged will be treated as a distribution and will be included in your gross income for that year.

## Other

**A. IRS Plan Approval.**

The agreement used to establish this IRA has been approved by the IRS. The IRS approval is a determination only as to form. It is not an endorsement of the plan in operation or of the investments offered.

**B. Additional Information.**

For further information on IRAs, you may wish to obtain IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), or Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), by calling 1-800-TAX-FORM, or by visiting [www.irs.gov](http://www.irs.gov).

**C. Important Information About Procedures for Opening a New Account.**

To help the government fight the funding of terrorism and money-laundering activities, federal law requires all financial organizations to obtain, verify, and record information that identifies each person who opens an account. Therefore, when you open an IRA, you are required to provide your name, residential address, date of birth, and identification number. We may require other information that will allow us to identify you.

**D. Qualified Reservist Distributions.**

If you are an eligible qualified reservist who has taken penalty-free qualified reservist distributions from your IRA or retirement plan, you may recontribute those amounts to an IRA, generally within a two-year period from your date of return.

**E. Qualified Charitable Distributions.**

If you are age 70½ or older, you may take tax-free IRA distributions of up to \$100,000 per year and have these distributions paid directly to certain charitable organizations. Special tax rules may apply. This provision applies to distributions during tax years 2012 and 2013 and may apply to subsequent years if extended by Congress. For further detailed information and effective dates you may wish to obtain IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), from the IRS or refer to the IRS website at [www.irs.gov](http://www.irs.gov).

**F. Disaster-Related Relief.**

If you qualify (e.g., you sustained an economic loss due to, or are otherwise considered affected by, certain IRS-designated disasters), you may

be eligible for favorable tax treatment on distributions, rollovers, and other transactions involving your IRA. Qualified disaster relief may include penalty-tax-free early distributions made during specified time-frames for each disaster, the ability to include distributions in your gross income ratably over multiple years, the ability to roll over distributions to an eligible retirement plan without regard to the 60-day rollover rule, and more. For additional information on specific disasters, including a complete listing of disaster areas, qualification requirements for relief, and allowable disaster-related IRA transactions, you may wish to obtain IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), from the IRS or refer to the IRS website at [www.irs.gov](http://www.irs.gov).



## IRS Approval Letters

### Reproduction of IRS Letter Approving Charles Schwab & Co., Inc. Individual Retirement Plan

#### Department of the Treasury

Internal Revenue Service  
Washington, D.C. 20224

Plan Name: Traditional or Roth IRA Custodial Account 001

FFN: 50162472700-001 Case: 201100214

EIN: 94-1737782

Letter Serial No: M193162a

Contact Person: Sherise Dorman

Telephone Number: (202) 283-9512

In Reference to: SE:T:EP:RA

Date: 07/21/2011

Charles Schwab & Co., Inc.

211 Main Street

San Francisco, CA 94105

Dear Applicant:

In our opinion, the form of the prototype trust, custodial account or annuity contract/endorsement identified above is acceptable either for use as a traditional IRA under section 408 of the Internal Revenue Code or for use as a Roth IRA under Code section 408A, as amended through the Small Business Jobs Act of 2010.

Each individual who adopts this approved prototype will be considered to have either a traditional IRA that satisfies the requirements of Code section 408 or a Roth IRA that satisfies the requirements of Code section 408A, provided the individual explicitly and unambiguously indicates at the time of adoption which type of IRA it is to be, follows the terms of the approved prototype document applicable to the type of IRA adopted, does not engage in certain transactions specified in Code section 408(e), and, if the IRA is a trust or custodial account, the trustee or custodian is a bank within the meaning of Code section 408(n) or has been approved by the Internal Revenue Service pursuant to Code section 408(a)(2).

Code section 408(i) and related regulations require that the trustee, custodian or issuer of a contract provide a disclosure statement to each adopting individual as specified in the regulations. Publication 590, Individual Retirement Arrangements (IRAs), gives information about the items to be disclosed. The trustee, custodian or issuer of a contract is also required to provide each adopting individual with annual reports of all transactions related to the IRA.

The Internal Revenue Service has not evaluated the merits of this IRA and does not guarantee contributions or investments made under the IRA. Furthermore, this letter does not express any opinion as to the applicability of Code section 4975, regarding prohibited transactions.

This prototype IRA may have to be amended to include or revise provisions in order to comply with future changes in the law or regulations.

If you have any questions concerning IRS processing of this case, call us at the above telephone number. Please refer to the File Folder Number (FFN) shown in the heading of this letter. Please provide those adopting this prototype with your telephone number, and advise them to contact your office if they have any questions about the operation of their IRA. Please provide a copy of this letter to each adopting individual.

You should keep this letter as a permanent record. Please notify us if you terminate sponsorship of this prototype IRA.

Sincerely Yours,



Andrew E. Zuckerman

Director

Employee Plans Rulings and Agreements

**Reproduction of IRS Letter  
Approving Schwab as IRA Custodian**

**Internal Revenue Service**  
Department of the Treasury  
Washington, D.C. 20224

Person to Contact: Ms. B. Garcia  
Telephone Number: (202) 566-4185  
Refer Reply to: E:EP:T:3

Date: Jan. 8, 1982

Charles Schwab & Co., Inc.  
[Former address deleted]

Gentlemen:

You have requested a determination as to whether Charles Schwab & Co., Inc. may act as a passive trustee or custodian of plans benefiting owner-employees (Keoghs) and individual retirement accounts (IRAs) as provided under section 1.401-12(n) of the Income Tax Regulations.

Sections 401(d)(1) and 408(a)(2) of the Internal Revenue Code, as amended by the Employee Retirement Income Security Act of 1974 (ERISA), require a trustee or custodian of Keogh plans and IRAs to be a bank or such other person who demonstrates to the satisfaction of the Commissioner that he will administer such trusts in accordance with the requirements of sections 401 and 408, respectively.

Additionally, section 401(f) of the Code provides that a custodial account shall be treated as a qualified trust under this section if such custodial account would, except for the fact it is not a trust, constitute a qualified trust under this section and the custodian is a bank (as defined in section 401[d][1]) or other person who demonstrates to the satisfaction of the Commissioner that the manner in which such other plan will hold the assets will be consistent with the requirements of section 401 of the Code. Section 408(h) provides similar rules for custodians of individual retirement accounts.

Section 1.401-12(n) of the regulations provides that such a person must file a written application with the Commissioner demonstrating, as set forth in that section, his ability to act as a trustee or custodian of plans benefiting owner-employees and individual retirement accounts.

We have concluded from all the representations made in the application that Charles Schwab & Co., Inc. meets the requirements of section 1.401-12(n) of the regulations and, therefore, may act as a passive trustee or custodian for Keogh plans and IRAs.

Section 408(k) of the Code defines a simplified employee pension as an individual retirement account or individual retirement annuity. Charles Schwab & Co., Inc. is not precluded under section 408 or section 401(d)(1) of the Code from acting as a nonbank trustee or custodian for simplified employee pensions.

This letter authorizes Charles Schwab & Co., Inc. to act only as a passive trustee or custodian within the meaning of section 1.401-12(n) of the regulations; that is, it is authorized only to acquire and hold particular investments specified by the custodian or trust instrument. It may not act as trustee or custodian if under the written trust or custodial instrument it has discretion to direct investment of trust or custodial funds or any other aspects of the business administration of the trust or custodial account.

This letter, while authorizing Charles Schwab & Co., Inc. to act as a passive trustee or custodian within the meaning of section 1.401-12(n)(7) of the regulations, does not authorize it to pool accounts in a common investment fund within the meaning of section 1.401-12(n)(6)(vi) of the regulations. Charles Schwab & Co., Inc. may not act as trustee or custodian unless it undertakes to act only under trust and custodial instruments which contain a provision to the effect that the employer is to substitute another trustee or custodian upon notification by the Commissioner that such substitution is required because the specified trustee or custodian has failed to comply with the requirements of such regulations or is not keeping such records, or making such returns, or rendering such statements, as are required by forms or regulations.

Charles Schwab & Co., Inc. is required to notify the Commissioner of Internal Revenue, Attn: E:EP, Internal Revenue Service, Washington, D.C. 20224, in writing, of any change which affects the continuing accuracy of any representation made in its application required by section 1.401-12(n) of the Income Tax Regulations.

Furthermore, the continued approval of its application is contingent upon its continued satisfaction of the criteria set forth in section 1.401-12(n) of the Income Tax Regulations.

This letter constitutes a determination as to whether Charles Schwab & Co., Inc. may act as trustee under section 401(d)(1) of the Code and does not bear upon its capacity to act as trustee or custodian under any other applicable law.

Pursuant to a power of attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely yours,



William T. Allen  
Chief, Employee Plans  
Technical Branch

## Traditional/Roth IRA Disclosure Statement Amendment

### Amendment to Your IRA

This Traditional/Roth individual retirement account (IRA) disclosure statement amendment updates your Traditional/Roth IRA documents that we previously provided to you. The information provided below amends your disclosure statement for recent law changes resulting from the Tax Cuts and Jobs Act, signed into law in December 2017 which prohibits certain recharacterizations of conversions and employer-sponsored retirement plan rollovers and modifies the medical expenses early distribution penalty tax exception for certain individuals; and the Bipartisan Budget Act, signed into law in January 2018 which allows extension of rollovers of plan loan offsets due to plan termination or severance from employment and allows for rollover relief for returns of improper IRS levies.

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

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

#### NEW POTENTIAL REDUCTION OF MEDICAL EXPENSES NEEDED FOR CERTAIN INDIVIDUALS TO QUALIFY FOR EARLY DISTRIBUTION PENALTY TAX EXCEPTION

Section 2, Paragraph K is replaced with the following:

**Early Distribution Penalty Tax.** If you receive a Traditional IRA distribution or a nonqualified Roth IRA distribution before you attain age 59½, an additional early distribution penalty tax of 10 percent generally will apply to the taxable amount of the distribution unless one of the following exceptions apply. **1) Death.** After your death, payments made to your beneficiary are not subject to the 10 percent early distribution penalty tax. **2) Disability.** If you are disabled at the time of distribution, you are not subject to the additional 10 percent early distribution penalty tax. In order to be disabled, a physician must determine that your impairment can be expected to result in death or to be of long, continued, and indefinite duration. **3) Substantially equal periodic payments.** You are not subject to the additional 10 percent early distribution penalty tax if you are taking a series of substantially equal periodic payments (at least annual payments) over your life expectancy or the joint life expectancy of you and your beneficiary. You must continue these payments for the longer of five years or until you reach age 59½. **4) Unreimbursed medical expenses.** If you take payments to pay for unreimbursed medical expenses that exceed a specified percentage of your adjusted gross income, you will not be subject to the 10 percent early distribution penalty tax. For further detailed information and effective dates you may obtain IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*, from the IRS. The medical expenses may be for you, your spouse, or any dependent listed on your tax return. **5) Health insurance premiums.** If you are unemployed and have received unemployment compensation for 12 consecutive weeks under a federal or state program, you may take payments from your IRA to pay for health insurance premiums without incurring the 10 percent early distribution penalty tax. **6) Higher education expenses.** Payments taken for certain qualified higher education expenses for you, your spouse, or the children or grandchildren of you or your spouse, will not be subject to the 10 percent early distribution penalty tax. **7) First-time homebuyer.** You may take payments from your IRA to use toward qualified acquisition costs of buying or building a principal residence. The amount you may take for this reason may not exceed a lifetime maximum of \$10,000. The payment must be used for qualified acquisition costs within 120 days of receiving the distribution. **8) IRS levy.** Payments from your IRA made to the U.S. government in response to a federal tax levy are not subject to the 10 percent early distribution penalty tax. **9) Qualified reservist distributions.** If you are a qualified reservist member called to active duty for more than 179 days or an indefinite period, the payments you take from your IRA during the active duty period are not subject to the 10 percent early distribution penalty tax. You must file IRS Form 5329 along with your income tax return to

the IRS to report and remit any additional taxes or to claim a penalty tax exception.

#### NEW ROLLOVER EXTENSION FOR PLAN LOAN OFFSETS

Section 2, Paragraph L. 4 is replaced with the following:

**Employer-Sponsored Retirement Plan to Traditional IRA Rollovers.** You may roll over, directly or indirectly, any eligible rollover distribution from an eligible employer-sponsored retirement plan. An eligible rollover distribution is defined generally as any distribution from a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan, or federal Thrift Savings Plan unless it is a required minimum distribution, hardship distribution, part of a certain series of substantially equal periodic payments, corrective distributions of excess contributions, excess deferrals, excess annual additions and any income allocable to the excess, deemed loan distribution, dividends on employer securities, the cost of life insurance coverage, or a distribution of Roth elective deferrals from a 401(k), 403(b), governmental 457(b), or federal Thrift Savings Plan.

If you elect to receive your rollover distribution prior to placing it in a Traditional IRA, thereby conducting an indirect rollover, your plan administrator generally will be required to withhold 20 percent of your distribution as a payment of income taxes. When completing the rollover, you may make up out of pocket the amount withheld and roll over the full amount distributed from your employer-sponsored retirement plan. To qualify as a rollover, your eligible rollover distribution generally must be rolled over to your Traditional IRA not later than 60 days after you receive the distribution. In the case of a plan loan offset due to plan termination or severance from employment, the deadline for completing the rollover is your tax return due date (including extensions) for the year in which the offset occurs. Alternatively, you may claim the withheld amount as income, and pay the applicable income tax, and if you are under age 59½, the 10 percent early distribution penalty tax (unless an exception to the penalty applies).

As an alternative to the indirect rollover, your employer generally must give you the option to directly roll over your employer-sponsored retirement plan balance to a Traditional IRA. If you elect the direct rollover option, your eligible rollover distribution will be paid directly to the Traditional IRA (or other employer-sponsored retirement plan) that you designate. The 20 percent withholding requirements do not apply to direct rollovers.

**Employer-Sponsored Retirement Plan-to-Roth IRA Rollovers.** You may roll over, directly or indirectly, any eligible rollover distribution from an eligible employer-sponsored retirement plan to your Roth IRA. An eligible rollover distribution is defined generally as any distribution from a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, 457(b) eligible governmental deferred compensation plan, or federal Thrift Savings Plan unless it is a required minimum distribution, hardship distribution, part of a certain series of substantially equal periodic payments, corrective distributions of excess contributions, excess deferrals, excess annual additions and any income allocable to the excess, deemed loan distribution, dividends on employer securities, or the cost of life insurance coverage. If you are a spouse, nonspouse, or qualified trust beneficiary who has inherited a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan, 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. If you are conducting an indirect rollover, your eligible rollover distribution generally must be rolled over to your Roth IRA not later than 60 days after you receive the distribution. In the case of a plan loan offset due to plan termination or severance from employment, the deadline for completing the rollover is your tax return due date (including extensions) for the year in which the offset occurs.

Although the rollover amount generally is included in income, the 10 percent early distribution penalty tax will not apply to rollovers from eligible employer-sponsored retirement plans to a Roth IRA or inherited Roth IRA, regardless of whether you qualify for any exceptions to the 10 percent early distribution penalty tax.

#### NEW ABILITY TO ROLL OVER IRS LEVY

*The following paragraph is added to Section J:*

**Rollover of IRS Levy.** If you receive a refund of eligible retirement plan assets that had been wrongfully levied, you may roll over the amount returned up until your tax return due date (not including extensions) for the year in which the money was returned.

#### ELIMINATION OF ABILITY TO PERFORM CERTAIN RECHARACTERIZATIONS

*Section 2, Paragraph N is replaced with the following:*

**Recharacterizations.** If you make a contribution to a Traditional IRA and later recharacterize either all or a portion of the original contribution to a Roth IRA along with net income attributable, you may elect to treat the original contribution as having been made to the Roth IRA. The same methodology applies when recharacterizing a contribution from a Roth IRA to a Traditional IRA. For tax years beginning before January 1, 2018, if you have converted from a Traditional IRA to a Roth IRA or rolled over an eligible employer-sponsored retirement plan to a Roth IRA, you may recharacterize the conversion or rollover along with net income attributable back to the Traditional IRA. The deadline for completing a recharacterization is your tax filing deadline (including any extensions), for the year for which the original contribution was made or conversion completed. However, effective for tax years beginning after December 31, 2017, you may not recharacterize a Roth IRA conversion or an employer-sponsored retirement plan rollover.



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