

# Roth and Traditional Individual Retirement Arrangements (IRAs) Disclosure Statement

This Disclosure Statement describes the general requirements and features of both a Traditional and a Roth IRA. This Disclosure Statement is provided in accordance with Internal Revenue Service (IRS) regulations. (Where the requirements for a Traditional and Roth IRA are the same, this Disclosure Statement refers to both types of accounts as an "IRA"). You should read this Disclosure Statement, the *Roth & Traditional IRAs Guidebook* and the *Utah State Retirement Board 401(k) Plan Document*, to make certain that you fully understand the rules and tax consequences applicable to IRAs. Members of Utah Retirement Systems (URS) are eligible to participate in both the Roth IRA and the Traditional IRA, regardless of age. Members of URS are eligible to contribute to the Roth IRA if they have taxable compensation and meet the income limits for contributions. Members of URS are eligible to contribute to the Traditional IRA if they have taxable compensation.

The provisions of this Disclosure Statement are subject to change. URS nor its agents provide tax or legal advice. You should seek tax or legal advice for any and all matters regarding your IRA with respect to your specific situation, as such matters may result in adverse tax consequences and/or penalties.

## **Your Right to Revoke Your IRA**

You may revoke your URS IRA by notifying URS within seven (7) days of establishing your IRA (account open date) by hand-delivering or mailing a written notice to the URS, Savings Plans Department, PO Box 1590, Salt Lake City, Utah 84110-1590. The notice must be post-marked by the seventh day after the account has been established. Upon receipt of your revocation, you will receive a refund of the entire amount contributed to the IRA without penalty, service charge, or administrative expense. If you revoke your IRA, URS is required to report the contribution on *IRS Form 5498* (except for transfers) and the revoked distribution on *IRS Form 1099-R*. If you have any questions concerning your right of revocation, please call (801)-366-7720 during normal business hours.

The notice should read as follows:

I hereby elect to revoke my \_\_\_\_\_ (Traditional/  
Roth) IRA.

Account Number \_\_\_\_\_

Established on \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name \_\_\_\_\_

## **Statutory Requirements**

An IRA is a trust account established for the exclusive benefit of you and your beneficiary(ies). The Internal Revenue Code of 1986, as amended, provides for several types of IRAs, including a "Traditional" IRA and a "Roth" IRA. URS administers both a Traditional IRA and a Roth IRA. The Internal Revenue Code requires that the IRA be governed by a written document. The URS 401(k) Plan Document incorporates those requirements. An IRA must be established with a qualified trustee or custodian. URS is the trustee and the custodian for the IRA is the Northern Trust Company. You cannot be your own trustee or custodian. Your interest in the IRA must be non-forfeitable at all times. No investment may be made in life insurance contracts or in collectibles. With certain limited exceptions, your IRA may not be commingled with other property. Distribution of your interest in the Traditional IRA must commence (single sum or installments) no later than April 1 of the year following the year in which you reach age 72. The mandatory

distribution rules do not apply to a Roth IRA while you are living.

## **Eligibility**

### **Traditional IRA**

Members of URS are eligible to participate in the Traditional IRA, regardless of age. Members may contribute to the Traditional IRA if they have taxable compensation.

### **Roth IRA**

Members of URS are eligible to participate in the Roth IRA, regardless of age. Members may contribute to the Roth IRA if they have taxable compensation and meet the income limits for contributions.

## **Contributions**

### **Contribution Limits**

The total amount of contributions to all of your IRAs (both Traditional and Roth IRAs) for any taxable year may not exceed the lesser of the contribution limit in effect for such taxable year or 100% of your compensation for the taxable year. If you reach age 50 before the close of the tax year for which you are making a contribution, your annual contribution limit is increased by the Age-50 Catch-Up provision. See *IRS Publication 590-A* or [www.irs.gov](http://www.irs.gov) for the current contribution limits.

All contributions to the URS IRAs must be made by you. Your employer is not allowed to make contributions, except as an after-tax deduction from your wages.

### **Roth IRA- Income Limits**

To contribute to a Roth IRA your modified adjusted gross income (MAGI) must be below a certain level. The amount you can contribute is phased out as you reach the maximum income limit. Review the *Reduced Roth IRA Contribution Worksheet* in *IRS Publication 590-A* or [www.irs.gov](http://www.irs.gov) for an example of how to calculate your maximum Roth IRA contribution. The MAGI limits are indexed for inflation each calendar year. See *IRS Publication 590-A* or [www.irs.gov](http://www.irs.gov) for the current Roth IRA contribution income limits.

### **Traditional IRA- Deductible Contributions**

Your contributions are generally tax deductible if you or your spouse are an active participant in an employer-sponsored plan (e.g., 401(k), 403(b), 457(b), pension plan) and your modified adjusted gross income (MAGI) is below a certain threshold. The MAGI limits are indexed for inflation each calendar year. The current income limits for Traditional IRA deductibility are available in *IRS Publication 590-A*. Review the *Worksheet for Reduced IRA Deduction* in *IRS Publication*

590-A for an example of how to calculate your maximum Traditional IRA deduction. For information on calculating your MAGI see *IRS Publication 590-A* or consult a tax advisor.

## **Traditional IRA- Designation of Non-Deductible Contributions**

You may designate a portion or all of your Traditional IRA contribution as a “non-deductible contribution” if amounts contributed do not exceed the lesser of 100% of your compensation or the annual contribution limit. If the deductible Traditional IRA contribution is limited because of active participation in a plan and your adjusted gross income exceeds the current income limit for Traditional IRA deductibility, you may make a non-deductible contribution. You are required to designate on *IRS Form 8606* how much of your Traditional IRA contribution is non-deductible. (This form should be attached to your federal income tax return.)

Therefore, your designation must be made by the due date (including extensions) for filing your tax return. If you overstate the non-deductible amount, there is a \$100 penalty for each overstatement, unless you can show that it was due to a reasonable cause. Non-deductible contributions receive tax-deferred accumulation of income until withdrawn.

## **Due Date for Contributions**

You can make personal contributions to an IRA any time from January 1st until the tax filing deadline (generally April 15th) of the following year. For most people, this means that contributions for a given tax year must be made by April 15th of the following year.

## **Prior Year Contributions**

Any contributions you make for a prior year must be made through a personal contribution (check) and cannot be made through payroll deduction. Contributions for a prior year should be submitted with a *URS IRA Deposit Authorization Form* and must be postmarked by the tax filing deadline.

## **Contribution Methods**

Contributions to the IRAs can be made in two ways, either by payroll deduction or personal contribution (check).

### **1) Payroll Deduction.**

If your employer participates with the URS IRA plans, contributions can be made directly from your paycheck. Any amount you choose to contribute to your IRA will be deducted after taxes from each paycheck.

### **2) Personal Contribution (check).**

You can make a contribution directly to URS by sending in a check with a *URS IRA Deposit Authorization Form*. URS accepts personal checks and certified funds (i.e., cashier’s checks or money orders) for personal deposits. URS is unable to accept cash. These deposits must be in an amount of \$100 or more.

Keep in mind the contribution limits to IRAs when you decide how much you want to contribute. There is a tax penalty if you contribute more to an IRA than you are allowed.

## **Return of IRA Contributions**

If you make a contribution to your IRA for a taxable year, you may withdraw the contributed amount and the applicable earnings at any time prior to the due date for filing your federal income tax return, including extensions, for the taxable year for which the contribution was made, or such later date as prescribed by the IRS. If the contribution is removed prior to the applicable deadline, the return of the contribution will not be includible in your gross income as an

IRA distribution. However, the earnings on the contribution will be taxable income in the year in which the contribution was made and may be subject to the additional 10% tax on early distributions. No deduction can be made for the distributed contribution.

## **Excess Contributions**

Generally, an excess contribution is the amount of any contributions to your Traditional or Roth IRA for a taxable year that exceeds your IRA contribution limit for the taxable year (this does not include amounts converted or rolled over to your IRA). An excise tax equal to 6% of the amount of any excess contribution will be assessed by the IRS for the year for which the excess contribution is made and for each subsequent year until the excess amount is eliminated.

However, the earnings on the contribution will be taxable income in the year in which the contribution was made and may be subject to the additional 10% tax on early distributions.

### **Return of Excess Contributions by the Date Your Return is Due**

If you make an excess contribution to your IRA for a taxable year, you may withdraw the contribution and the applicable earnings prior to the due date for filing your federal income tax return, including extensions, or such later date as may be prescribed by the IRS. If this withdrawal is made by the applicable deadline, the return of the contribution will not be subject to the 6% excise tax on excess contributions (assuming the contribution is not deducted on your return).

### **Return of Excess Contributions After Tax Return Due Date**

If you make an excess contribution to your IRA for a taxable year and you withdraw the excess contribution after the due date for filing your federal income tax return (including extensions), the returned excess contribution will not be includible in your gross income as an IRA distribution if:

- 1) Your total IRA contributions for the year did not exceed the contribution limit in effect for the taxable year, and
- 2) You did not deduct the excess contribution on your return (or if the deduction you claimed was disallowed by the IRS). However, you must pay the 6% excise tax on the excess contribution for each taxable year that it was still in your IRA at the end of the year.

Under this procedure, you are not required to withdraw any earnings attributable to the excess contribution.

### **Applying Excess Contributions to Subsequent Year**

You may also eliminate an excess contribution from your IRA in a subsequent year by not contributing the maximum amount for that year and applying the excess contribution to the subsequent year’s contribution. You may be entitled to a deduction for the amount of the excess contribution that is applied in the subsequent year provided you did not previously deduct the excess contribution (or if the deduction you claimed was disallowed by the IRS). However, if you incorrectly deducted an excess contribution in a closed taxable year (i.e., one for which the period to assess a deficiency has expired), the amount of the excess contribution cannot be deducted again in the subsequent year in which it is applied.

### **How to Treat Withdrawn Interest or Other Income**

You must include in your gross income the interest or other income that was earned on the excess contribution. Report it on your return for the year in which the excess contribution was made. Your withdrawal of interest or other income may be subject to the additional 10% tax on early distributions.

### **Tax Reporting**

You will receive *Form 1099-R* indicating the amount of your distribution. If the excess contribution was made in a previous tax year, the form will indicate the year in which the earnings are taxable.

If you are subject to the 6% excise tax on excess contributions or the 10% additional tax on early distributions you will have to file *IRS Form 5329*. See *IRS Instructions for Form 5329* for details.

### **Recharacterized Contributions**

A recharacterization allows you to treat regular contributions made to one type of URS IRA as having been made to a different type of URS IRA, e.g. URS Traditional IRA to URS Roth IRA or URS Roth IRA to URS Traditional IRA. A regular contribution is the annual contribution you're allowed to make to a Traditional or Roth IRA. It does not include a conversion or any other rollover. The IRS refers to the IRA from which you are recharacterizing as the "First IRA," and the IRA to which you are recharacterizing as the "Second IRA." A recharacterized contribution will be treated for federal income tax purposes as having been contributed to the Second IRA on the same date and for the same taxable year that the contribution was initially made to the First IRA. Any net income attributable to the contribution must also be recharacterized (URS will calculate any earnings or losses). The net income recharacterized with the contribution will be treated as earned in the Second IRA.

If you recharacterize, you cannot deduct contributions made to the First IRA.

A recharacterization must be completed by the due date (including extensions) of your tax return for the tax year in which the contribution was made. This may result in the need to file an extended federal income tax return. See *IRS Publication 590-A* for additional information on contribution recharacterizations.

### **Tax Reporting**

Each year URS will send *IRS Form 5498* showing your preceding year IRA contributions.

If you are eligible to make deductible contributions to your Traditional IRA, you may claim your deduction for Traditional IRA contributions on your federal income tax return (*IRS Form 1040* or *Form 1040A*) even if you do not itemize deductions.

If you make non-deductible contributions to your Traditional IRA for a taxable year, or if you receive any distributions from your Traditional IRA for a taxable year that includes non-deductible contributions, you will be required to provide certain information concerning these transactions on *IRS Form 8606*, to be included with your federal income tax return for the taxable year.

If you recharacterize IRA contributions, you will be sent *IRS Form 1099-R* for the distribution from the First IRA and *IRS Form 5498* for the contributed amount to the Second IRA.

### **Tax Credit**

You may be eligible for a nonrefundable tax credit of up to 50% of the first \$2,000 of qualified retirement savings contributions, provided your gross income is within specified limits. Qualified retirement savings contributions include contributions to a Traditional IRA, Roth IRA, elective deferrals to a qualified retirement plan, elective deferrals under an eligible deferred compensation plan maintained by a state or local government, and voluntary employee contributions to a qualified retirement plan.

The amount of the tax credit is calculated by multiplying the first

\$2,000 of your qualified retirement savings contributions by applicable percentage, which is determined by federal tax laws. You can obtain additional information on this tax credit in *IRS Publication 590* or go to the IRS website at [www.irs.gov](http://www.irs.gov).

For purposes of calculating the tax credit, your qualified retirement savings contributions may be reduced by certain distributions from certain retirement plans and IRAs made in the same tax year, the two previous tax years, the period after the tax year, and before the due date for filing your return for the tax year. Distributions received by your spouse are treated as distributions to you for purposes of reducing your qualified retirement contributions if you file a joint return for the tax year in which your spouse received the contributions. If you believe that you may be eligible for the tax credit, contact your tax adviser.

The adjusted gross income (AGI) limits for this tax credit will be increased by the IRS from time to time to reflect cost of living adjustments.

### **Tax-Deferred Earnings**

#### **Traditional IRA**

Earnings and gains on your Traditional IRA contributions will not be subject to federal income tax until they are distributed.

#### **Roth IRA**

Earnings on contributions to a Roth IRA will accumulate on a tax-deferred basis and may ultimately be tax-free if the earnings are part of a "qualified distribution".

### **Distributions/Withdrawals**

#### **Eligibility**

You may withdraw money from an IRA at any time.

#### **Distributions and Federal Income Tax**

##### ***Traditional IRA- Taxation of Distributions***

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

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

If you made non-deductible contributions or rolled over any after-tax amounts to any of your Traditional IRAs, you have a cost basis equal to the amount of those contributions. These non-deductible contributions aren't taxed when they are distributed to you. They are a return of your investment in your Traditional IRA.

If you are under age 59½, the taxable portion of your Traditional IRA withdrawal may be subject to a 10% additional tax for early distributions unless you meet one of the exceptions to the 10% additional tax.

##### ***Traditional IRA- Distribution of Non-Deductible Contributions***

If part or all of your distribution represents a return of your non-deductible contributions or after-tax rollover contributions, the distribution will be treated as a tax-free return of cost basis. Any earnings and deductible contributions associated with the distribution will be taxed as ordinary income. When computing your non-deductible contributions and after-tax rollovers, all Traditional

IRAs maintained on your behalf are required to be aggregated and all distributions in a given year are treated as one distribution.

### **Roth IRA- Qualified Distributions**

A distribution from a Roth IRA will generally be tax-free for federal income tax purposes as long as it is a "qualified distribution." A qualified distribution is a distribution from your Roth IRA that meets the following requirements:

- 1) It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
- 2) The payment or distribution is:
  - a. Made after the date you attain age 59 ½;
  - b. Made because you are disabled;
  - c. Made to a beneficiary or to your estate after your death; or
  - d. To pay the expenses of a first-time home purchase up to a lifetime limit of \$10,000.

### **Roth IRA- Non-Qualified Distributions and Ordering Rules**

If you take a distribution from your Roth IRA that is not a qualified distribution part of it may be subject to federal income tax. There is a set order in which contributions (including converted amounts from a Traditional IRA or qualified retirement plan) and earnings are considered to be distributed from your Roth IRA. For these purposes, disregard the withdrawal of excess contributions and the earnings on them. Order the distributions as follows:

- 1) Regular contributions.
- 2) Converted amounts, on a first-in, first-out basis (generally, total conversions from the earliest year first). Take these converted amounts into account as follows:
  - a. Taxable portion (the amount required to be included in gross income because of the conversion) first, and then the
  - b. Non-taxable portion.
- 3) Earnings on contributions.

For this purpose, all distributions for each year are considered together, and all of your Roth IRA accounts are treated as one account.

### **Additional 10% Tax on Early Distributions/Age 59 ½ Rule**

Generally, if you are under age 59 ½, you must pay a 10% additional tax on a taxable distribution from your IRA. Distributions before you are age 59 ½ are called early distributions. The 10% additional tax on early distributions applies to the part of the distribution you have to include in gross income. Thus, the 10% additional tax does not apply to the tax-free portion of any distributions you receive from your IRAs. The 10% additional tax is in addition to any regular income tax on the distribution.

### **Exceptions to the Additional 10% Tax**

There are several exceptions to the age 59 ½ rule. Even if you receive a distribution before you are age 59 ½, you may not have to pay the 10% additional tax if you are in one of the following situations:

- » The distributions do not exceed the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year).
- » The distributions aren't more than the cost of your medical insurance due to a certain period of unemployment.
- » You are totally and permanently disabled.

- » You are the beneficiary of a deceased IRA owner.
- » You are receiving distributions in the form of an annuity.
- » The distributions aren't more than your qualified higher education expenses.
- » You use the distributions to buy, build, or rebuild a first home.
- » The distribution is due to an IRS levy of the qualified plan.
- » The distribution is a qualified reservist distribution.
- » The distribution is for a qualified birth or adoption.

### **Required Minimum Distributions**

#### **Traditional IRA- Required Minimum Distributions**

You are required to begin receiving minimum distributions from your Traditional IRA by your required beginning date (April 1 of the year following the year you attain age 72). Your required minimum distribution for each year, beginning with the calendar year you attain age 72, is generally based upon the value of your account at the end of the prior year divided by the life expectancy factor for your age (derived from the *IRS Uniform Lifetime Table*). However, if your spouse is your sole beneficiary and is more than 10 years younger than you, your required minimum distribution for each year is based upon the joint life expectancies of you and your spouse, based on the *IRS Joint Life and Last Survivor Expectancy Table*. See *IRS Publication 590-B* to view the life expectancy tables. The account balance that is used to determine the amount of the required minimum distribution for each year is the prior year end fair market value (value as of December 31st), adjusted for outstanding rollovers, transfers and recharacterizations (that relate to a conversion or failed conversion made in the prior year). You are responsible for notifying URS of any outstanding amounts.

If the amount distributed during a taxable year is less than the minimum amount required to be distributed, you will be subject to a penalty tax equal to 50% of the difference between the amount distributed and the amount required to be distributed. You are responsible for monitoring your required minimum distributions from year to year to make sure that you are withdrawing the required minimum amount. If you are subject to a federal penalty tax due to a missed required minimum distribution, you must file *IRS Form 5329*.

#### **Roth IRA- Required Minimum Distributions**

No required minimum distributions apply to Roth IRAs. You are not required to take distributions from your Roth IRA during your lifetime.

### **Traditional IRA- Distribution Upon Death**

#### **Death On or After Required Beginning Date**

If you die on or after your required beginning date of April 1 of the year following the year you attain age 72 (age 70 ½ if born before July 1, 1949), the remaining portion of your interest will be distributed at least as rapidly as follows:

- 1) If the designated beneficiary is someone other than your surviving spouse, the remaining interest will be distributed over the remaining life expectancy of the designated beneficiary, with such life expectancy determined using the beneficiary's age as of his or her birthday in the year following the year of your death, or your remaining life expectancy determined in the year of your death, if longer.
- 2) If your sole designated beneficiary is your surviving spouse, the remaining interest will be distributed over such spouse's life expectancy determined in the year following the year of your

death, or your remaining life expectancy determined in the year of your death, if longer.

3) Any interest remaining after such spouse's death will be distributed over such spouse's remaining life expectancy determined using the spouse's age as of his or her birthday in the year of the spouse's death, or, if the distributions are being made over your remaining life expectancy, over such period.

If there is no designated beneficiary, the remaining interest will be distributed over your remaining life expectancy determined in the year of your death.

The amount to be distributed each year under option 1, 2, or 3, beginning with the calendar year following the calendar year of your death, is the quotient obtained by dividing the value of the Traditional IRA as of the end of the preceding year by the remaining life expectancy specified in such option. Life expectancy is determined using the *Single Life Table in Q&A-1 of Treas. Reg. Section 1.401(a)(9)-9*.

If distributions are being made to a surviving spouse as the sole designated beneficiary, such spouse's remaining life expectancy for a year is the number in the *Single Life Table* corresponding to such spouse's age in the year. In all other cases, remaining life expectancy for a year is the number in the *Single Life Table* corresponding to the beneficiary's age or your age in the year specified in option 1, 2, or 3, and reduced by 1 for each subsequent year.

The "value" of the Traditional IRA includes the amount of any outstanding rollover, transfer and recharacterization under *Q&As 7 and 8 of Treas. Reg. Section 1.408-8*.

#### **Death Before Required Beginning Date**

If you die before the required beginning date (April 1 of the year following the year you attain age 72), your entire interest will be distributed at least as rapidly as follows:

1) If the designated beneficiary is someone other than your surviving spouse, the entire interest will be distributed, starting by the end of the calendar year following the calendar year of your death, over the remaining life expectancy of the designated beneficiary, with such life expectancy determined using the age of the designated beneficiary as of his or her birthday in the year following the year of your death, or, if elected, in accordance with option 3 below.

2) If your sole designated beneficiary is your surviving spouse, the entire interest will be distributed, starting by the end of the calendar year following the calendar year of your death (or by the end of the calendar year in which you would have attained age 72, if later), over such spouse's life, or, if elected, in accordance with option 3.

3) If the surviving spouse dies before distributions are required to begin, the remaining interest will be distributed, starting by the end of the calendar year following the calendar year of the spouse's death, over the spouse's designated beneficiary's remaining life expectancy determined using such designated beneficiary's age as of his or her birthday in the year following the death of the spouse, or, if elected, will be distributed in accordance with option 3 below. If the surviving spouse dies after distributions are required to begin, any remaining interest will be distributed over the spouse's remaining life expectancy determined using the spouse's age as of his or her birthday in the year of the spouse's death.

4) If there is no designated beneficiary, or if applicable by operation of option 1 or 2 above, the entire interest will be distributed by the end of the calendar year containing the fifth anniversary of your death (or of the spouse's death in the case of the surviving spouse's death before distributions are required to begin under option 2 above).

The amount to be distributed each year under option 1 or 2 is the quotient obtained by dividing the value of the Traditional IRA as of the end of the preceding year by the remaining life expectancy specified in such option. Life expectancy is determined using the *Single Life Table in Q&A-1 of Treas. Reg. Section 1.401(a)(9)-9*. If distributions are being made to a surviving spouse as the sole designated beneficiary, such spouse's remaining life expectancy for a year is the number in the *Single Life Table* corresponding to such spouse's age in the year. In all other cases, remaining life expectancy for a year is the number in the *Single Life Table* corresponding to the beneficiary's age in the year specified in option 1 or 2 and reduced by 1 for each subsequent year.

The "value" of the Traditional IRA includes the amount of any outstanding rollover, transfer and recharacterization under *Q&As 7 and 8 of Treas. Reg. Section 1.408-8*.

If you do not properly designate a beneficiary, or all designated beneficiaries have predeceased you, your spouse shall become the beneficiary or, if no surviving spouse or unmarried, the proceeds may be paid according to *Title 49 of the Utah Code*.

#### **Roth IRA- Distribution Upon Death**

Upon your death, your entire interest will be distributed at least as rapidly as follows:

If the designated beneficiary is someone other than your surviving spouse, the entire interest will be distributed, starting by the end of the calendar year following the calendar year of your death, over the remaining life expectancy of the designated beneficiary, with such life expectancy determined using the age of the designated beneficiary as of his or her birthday in the year following the year of your death, or, if elected, in accordance with option 3 below.

If your sole designated beneficiary is your surviving spouse, the entire interest will be distributed, starting by the end of the calendar year following the calendar year of your death (or by the end of the calendar year in which you would have attained age 72, if later), over such spouse's life, or, if elected, in accordance with option 3 below.

1) If the surviving spouse dies before distributions are required to begin, the remaining interest will be distributed, starting by the end of the calendar year following the calendar year of the spouse's death, over the spouse's designated beneficiary's remaining life expectancy determined using such designated beneficiary's age as of his or her birthday in the year following the death of the spouse, or, if elected, will be distributed in accordance with option 3 below.

2) If the surviving spouse dies after distributions are required to begin, any remaining interest will be distributed over the spouse's remaining life expectancy determined using the spouse's age as of his or her birthday in the year of the spouse's death.

3) If there is no designated beneficiary, or if applicable by operation of option 1 or 2 above, the entire interest will be distributed by the end of the calendar year containing the fifth anniversary of your death (or of the spouse's death in the case of the surviving spouse's death before distributions are required to

begin under option 2 above).

The amount to be distributed each year under option 1 or 2 is the quotient obtained by dividing the value of the Roth IRA as of the end of the preceding year by the remaining life expectancy specified in such option. Life expectancy is determined using the *Single Life Table in Q&A-1 of Treas. Reg. Section 1.401(a)(9)-9*. If distributions are being made to a surviving spouse as the sole designated beneficiary, such spouse's remaining life expectancy for a year is the number in the *Single Life Table* corresponding to such spouse's age in the year. In all other cases, remaining life expectancy for a year is the number in the *Single Life Table* corresponding to the designated beneficiary's age in the year specified in option 1 or 2 and reduced by 1 for each subsequent year.

The "value" of the Roth IRA includes the amount of any outstanding rollover, transfer and recharacterization under *Q&As 7 and 8 of Treas. Reg. Section 1.408-8*.

If you do not properly designate a beneficiary, or all designated beneficiaries have predeceased you, your spouse shall become the beneficiary or, if no surviving spouse or unmarried, the proceeds may be paid according to *Title 49 of the Utah Code*.

### Qualified Reservist Distribution

You are eligible for a "qualified reservist distribution" from your IRA if you were ordered or called to active duty after September 11, 2001 for a period of more than 179 days (or for an indefinite period) because you are a member of a "reserve component" and the distribution was made no earlier than the date of the order or call to active duty and no later than the end of the active duty period. A "reserve component" is defined in *IRS Publication 590-B*. You may repay a qualified reservist distribution to an IRA at any time during the two-year period after the end of active duty (in addition to the annual contribution).

### Qualified Charitable Distribution

A qualified charitable distribution (QCD) is generally a non-taxable distribution made directly by the trustee of your IRA (URS) to an organization eligible to receive tax deductible contributions. You must be at least age 70½ when the distribution was made. Also, you must have the same type of acknowledgment of your contribution that you would need to claim a deduction for a charitable contribution. See *Records To Keep in Pub. 526*. A QCD can be used to satisfy your required minimum distribution for the year.

The maximum annual distribution for QCDs is \$100,000. The maximum permitted QCD for a year is reduced by the amount of any deductible Traditional IRA contributions made by you for all taxable years you are age 70½ or older, less any such reduction for years prior to the current year. Any QCD in excess of the \$100,000 limit is included in income as any other distribution. If you file a joint return, your spouse can also have a QCD and exclude up to \$100,000. The amount of the QCD is limited to the amount of the distribution that would otherwise be included in income. If your IRA includes non-deductible contributions, the distribution is first considered to be paid out of otherwise taxable income.

QCD amounts transferred to a charity are counted toward your IRA's required minimum distribution for the year.

This option can be used whether or not you itemize your deductions. The distributed amount within the \$100,000 limit is excluded from your income; however, no deduction, such as a charitable contribution deduction on *Schedule A*, may be taken for the

distributed amount.

### One-time qualified HSA funding distribution

You may be able to make a qualified HSA funding distribution from your IRA to your Health Savings Account (HSA). The distribution must be less than or equal to your maximum annual HSA contribution.

This distribution must be made directly by the trustee of the IRA (URS) to the trustee of the HSA. The distribution is not included in your income, is not deductible, and reduces the amount that can be contributed to your HSA. You must make the distribution by the end of the year; the special rule allowing contributions to your HSA for the previous year if made by your tax return filing deadline does not apply. The qualified HSA funding distribution is reported on *IRS Form 8889* for the year in which the distribution is made.

Generally, only one qualified HSA funding distribution is allowed during your lifetime. If you own two or more IRAs and want to use amounts in multiple IRAs to make a qualified HSA funding distribution, you must first make an IRA-to-IRA transfer of the amounts to be distributed into a single IRA, and then make the one-time qualified HSA funding distribution from that IRA.

Testing period rules apply to qualified HSA funding distributions. If at any time during the testing period you cease to meet all requirements to be an eligible individual, the amount of the qualified HSA funding distribution is included in your gross income. The qualified HSA funding distribution is included in gross income in the taxable year you first fail to be an eligible individual. This amount is subject to the 10% additional tax (unless the failure is due to disability or death).

See *IRS Publication 969*, for additional information about this distribution.

### Qualified Birth or Adoption Distribution

A qualified birth or adoption distribution is a distribution of up to \$5,000 made for a birth or adoption (adoptions that are finalized) on or after January 1, 2020. An eligible adoptee is any individual (other than the child of a spouse) who has not attained age 18 or is physically or mentally incapable of self-support. The aggregate amount of the distribution cannot exceed \$5,000 per child, across all eligible retirement plans owned by you. The distribution must be made within one year following the birth or finalized legal adoption of a child. This distribution is not subject to the 10% early withdrawal penalty.

A qualified birth or adoption distribution may be repaid to a qualifying retirement plan as a rollover contribution.

### Distribution Tax Reporting

Distributions must be reported to the IRS. For tax-filing purposes, you will receive an *IRS Form 1099-R* for the tax year in which the distribution takes place. You must report any amount distributed on your federal income tax return.

If you receive a distribution from your Roth IRA, you must complete *IRS Form 8606* and attach it to your return. If you receive a distribution from your Traditional IRA and have ever made non-deductible contributions or rolled over after-tax amounts to any of your Traditional IRAs, you must complete *IRS Form 8606* and attach it to your return. See *IRS Instructions for Form 8606* for details.

If you are subject to the 10% additional tax you will have to file *IRS Form 5329*. See *IRS Instructions for Form 5329* for details.

## Tax Withholding

### **Traditional IRA**

Distributions from a Traditional IRA are subject to a 10% federal income tax withholding unless you affirmatively elect not to have withholding apply. You may also elect to withhold more than 10% for federal income tax if you choose.

### **Roth IRA**

Distributions from a Roth IRA are not subject to federal income tax withholding. You may elect to withhold federal income tax from your distribution if you choose.

## Direct Transfers and Rollovers

### **IRA Direct Transfer**

A direct transfer is a transfer of funds from your existing IRA to another IRA of the same type (e.g., Traditional IRA to Traditional IRA or Roth IRA to Roth IRA). A direct transfer occurs when funds from a similar plan are sent directly to URS. Roth and Traditional IRAs that you have at other financial institutions can be directly transferred and consolidated into your URS Roth and Traditional IRAs without tax consequences.

### **60-Day Rollover From Existing IRA to a URS IRA**

If you take a distribution from an existing IRA (including a URS IRA) you can roll over all or part of the distribution to your URS IRA within 60 days from when you receive the distribution. A 60-day IRA rollover is between like plans (i.e. Traditional IRA to Traditional IRA or Roth IRA to Roth IRA). You can make only one rollover from an existing IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs that you own. For additional information See *IRS Announcement 2014-15* and *IRS Announcement 2014-32*.

### **Eligible Plan Rollovers to a Traditional IRA**

Existing eligible employer plans (e.g., 401(a), 401(k), 403(b), 457(b)) can be distributed and rolled over to your URS Traditional IRA. The distributed amount that is rolled over is not taxable. The distributed amount must be an "eligible rollover distribution". Generally, an "eligible rollover distribution" is any distribution of all or part of your eligible employer plan except the following:

- 1) any portion of your distribution that represents a required minimum distribution to you after age 72;
- 2) a hardship distribution; or
- 3) any of a series of substantially equal periodic distributions paid at least once a year over:
  - a) Your lifetime or life expectancy,
  - b) The lifetimes or life expectancies of you and your beneficiary, or
  - c) A period of 10 years or more.

### **Direct Rollover Option**

If you elect to have your eligible employer plan distribution sent directly to your URS Traditional IRA (you do not take possession of the funds) there will be no federal income taxes withheld from your distribution. To roll money out of your eligible employer plan you may be subject to withdrawal eligibility requirements. Check your plan to find out if you are eligible for a rollover.

### **60-Day Rollover Option**

If you elect to have your eligible employer plan distribution paid directly to you (you take possession of the funds), your distribution will be subject to a 20% federal income tax withholding. You will

have 60 days to roll over the funds to your Traditional IRA from the date you receive the check. You may replace and roll over any amount that was withheld. Any portion of the distribution that is not rolled over, including any taxes that are withheld and not replaced, is treated as a taxable withdrawal and may be subject to an additional 10% tax on early distributions.

### **Rollover of After-Tax Contributions**

If you have after-tax contributions that are a part of your eligible rollover distribution, they can be rolled over to a URS Traditional IRA. If you elect to rollover after-tax amounts it is your responsibility to keep track of these after-tax rollover amounts and to report the amounts in accordance with IRS guidelines.

### **Designated Roth Rollovers to a URS Roth IRA**

Designated Roth accounts (Roth 401(k), Roth 457(b), Roth 403(b)) can be rolled over and consolidated to your URS Roth IRA (as a direct rollover or a 60-day rollover). You cannot subsequently roll your Roth IRA back to a designated Roth account.

When you roll a designated Roth account to a Roth IRA the five-year holding period for qualified distributions is not carried over. Rather, the amount rolled over takes on the five-year holding period of the Roth IRA. For additional information regarding the five-year holding period for designated Roth accounts See *IRS Publication 4530*.

### **Ordering Rules**

If your designated Roth rollover is a qualified distribution the entire amount of the rollover is treated as contributions to the Roth IRA. Any non-qualified distributions from the designated Roth account that represent Roth basis are treated as contributions and any remaining amounts are treated as earnings.

### **Direct Transfer Tax Reporting**

Direct transfers between IRAs do not require tax reporting.

### **Rollover Tax Reporting**

Rollovers (direct or 60-day) must be reported to the IRS. For tax-filing purposes you will receive an *IRS Form 1099-R* when a rollover takes place. You must report any amount rolled over on your federal income tax return.

## Conversions to a Roth IRA

### **Traditional IRA to Roth IRA**

A Traditional IRA may be converted to a Roth IRA. The conversion will be treated as a taxable distribution from your Traditional IRA and a subsequent conversion contribution to a Roth IRA. Distributions from your Traditional IRA that are converted to a Roth IRA will be included in your gross income in the year of the distribution (except for the portion of the distribution that represents a tax-free return of your non-deductible Traditional IRA contributions) but will not be subject to the 10% additional tax on early distributions, regardless of whether you are under age 59 ½.

### **Eligible Employer Plan to a Roth IRA**

An eligible employer plan (e.g., 401(a), 401(k), 403(b), 457(b)) may be rolled over (i.e. converted) to a Roth IRA. The conversion will be treated as a taxable distribution from your eligible employer plan and a subsequent conversion contribution to a Roth IRA. Distributions from your eligible employer plan that are converted to a Roth IRA will be included in your gross income in the year of the distribution (except for the portion of the distribution that represents a tax-free return of your after-tax contributions) but will not be subject to the 10% additional tax on early distributions, regardless of whether you are under age 59 ½. To convert money out of your eligible employer

plan you may be subject to withdrawal eligibility requirements. Check your plan to find out if you are eligible for a distribution.

### **Direct Rollover Option**

If you elect to have your Traditional IRA or eligible employer plan conversion sent directly to your URS Roth IRA (you do not take possession of the funds) there will be no federal income taxes withheld from your conversion (unless you elect otherwise).

### **60-Day Rollover Option**

If you elect to have your Traditional IRA or eligible employer plan conversion paid directly to you (you take possession of the funds) you will have 60 days from the date you receive the check to convert the funds to your Roth IRA. You may replace and convert any amount that was withheld. Any portion of the distribution that is not rolled over, including any taxes that are withheld and not replaced, is treated as a taxable withdrawal, and may be subject to an additional 10% tax on early distributions.

### **Traditional IRA Conversion- Tax Withholding**

If you elect to have your Traditional IRA conversion paid directly to you, your distribution will be subject to a 10% withholding for federal income tax unless you elect otherwise.

### **Eligible Employer Plan Conversion- Tax Withholding**

If you elect to have your eligible employer plan conversion paid directly to you, your distribution will be subject to a 20% federal income tax withholding.

### **Tax Considerations**

Because converting your Traditional IRA or eligible employer plan to a Roth IRA is taxable as income, it should only be done after careful consideration of the tax consequences. Conversions to a Roth IRA are irreversible, please consult a tax advisor before you initiate a conversion. URS does not provide tax, legal or accounting advice.

### **Limits**

There is no limit to the number of conversions that can be made in one year. Keep in mind that the total amount of conversions will be reported to the IRS for federal income tax purposes.

### **Distribution of converted amounts within 5-year period**

If, within the 5-year period starting with the first day of your tax year in which you convert an amount from a Traditional IRA or qualified retirement plan to a Roth IRA, you take a distribution from a Roth IRA, you may have to pay the 10% additional tax on early distributions. You generally must pay the 10% additional tax on any amount attributable to the part of the amount converted that you had to include in income (recapture amount). A separate 5-year period applies to each conversion. If you are over age 59 ½ at the time of the distribution or you meet one of the exceptions to the 10% additional tax you may not be subject to the 10% additional tax.

The 5-year period used for determining whether the 10% early distribution tax applies to a distribution from a conversion is separately determined for each conversion and isn't necessarily the same as the 5-year period used for determining whether a distribution is a qualified distribution.

You must pay the 10% additional tax in the year of the distribution, even if you had included the conversion in an earlier year. You also must pay the additional tax on any portion of the distribution attributable to earnings on contributions.

### **Tax Reporting**

Conversions must be reported to the IRS. For tax-filing purposes, you will receive *IRS Form 1099-R* and *IRS Form 5498* when a conversion takes place. You must report any amount converted on your federal income tax return. You are responsible for maintaining records of your Roth IRA conversions and annual contributions in order to properly complete your federal tax return.

### **Reversing a Conversion (Recharacterization)**

Effective January 1, 2018, pursuant to the Tax Cuts and Jobs Act (Pub. L. No. 115-97), a conversion from a Traditional IRA or eligible employer plan to a Roth IRA cannot be recharacterized, i.e. it cannot be reverted back to a Traditional IRA later. For additional information See *IRS Publication 590-A*.

### **Naming Beneficiaries**

Beneficiaries are the person(s) who will be entitled to receive a payment from URS after your death. URS will pay benefits according to applicable laws governing systems and plans. Beneficiary payments will be paid for each plan according to your most recent beneficiary designation on file with URS. Beneficiaries are limited to living persons or legal entities (such as a trust) designated prior to the date of your death and cannot include your estate, any non-human being, or a person that is not alive at the time of the designation. A prohibited beneficiary designation may be voidable by URS at any time.

You may change or revoke your designated beneficiary(ies) at any time. URS must receive a beneficiary designation before your death for the beneficiary designation to be effective.

### **Types of beneficiaries:**

A. Primary: Person(s) to receive any benefits payable from the plan(s) upon your death.

B. Contingent: Person(s) to receive any benefits payable from the plan(s) upon your death only if all primary beneficiaries are deceased and/or voided.

If you name multiple primary beneficiaries and do not indicate percentage shares of benefits, each beneficiary's share will be divided equally. You have the option of dividing the payable benefits in customized, unequal amounts by indicating the percentage share of benefits for each beneficiary. If your percentages do not add up to 100%, each beneficiary's share will be a fractional amount based proportionately on the stated percentages you provided. If URS is unable to pay a designated beneficiary's share of benefits for any reason, including death, relinquishment, or inability to locate, then that beneficiary is voided, and the shares will be a fractional amount based proportionately on the stated percentages for the remaining beneficiary(ies).

If all of your primary beneficiary(ies) die before you and you have not named contingent beneficiary(ies), the proceeds may be paid according to *Title 49 of the Utah Code*.

Under Utah law, a divorce or annulment of a marriage revokes any beneficiary designation of the former spouse as a beneficiary with URS. If you wish to re-designate your former spouse as beneficiary, complete a new beneficiary form after the date of the divorce and submit it to URS. URS shall be relieved from all liability for paying a claim to a former divorced spouse if URS did not receive notice of the divorce prior to paying the proceeds. A revocation of a beneficiary designation is canceled by remarriage to the former spouse or by a



nullification of the divorce or annulment.

If a minor is named as your beneficiary, any benefits will be paid to the surviving parent or the court-appointed guardian or conservator of the minor based on the laws in the minor's state of residence.

## **Other Tax Considerations**

### **Federal Estate and Gift Taxation**

Your designation of a beneficiary (or beneficiaries) to receive distributions from your IRA upon your death will not be considered a transfer of property for federal gift tax purposes.

Generally, amounts remaining in your IRA after your death will be included in your gross estate for federal estate tax purposes. You are encouraged to consult with a financial planner or tax advisor when considering the estate tax consequences of your IRA assets.

### **Penalty Taxes**

If one or more of the following situations occur, you may be required to file *IRS Form 5329, Additional Taxes on Qualified Plans* (Including IRAs) and Other Tax-Favored Accounts, with the IRS:

- 1) Payment of a 6% excise tax because of an excess contribution.
- 2) Payment of a 10% additional tax because of an early distribution before age 59½.
- 3) Payment of a 50% excise tax because of an insufficient distribution from your IRA after age 72.

*IRS Form 5329* need not be filed if the only activity in your IRA for the year consisted of proper (i.e., non-penalized) contributions and distributions. If *IRS Form 5329* must be filed, it should be attached to your federal income tax return or should be filed separately if you are not required to file a federal income tax return.

### **Prohibited Transactions**

To ensure the proper use of the assets deposited in the IRA, your IRA may not engage directly or indirectly in certain prohibited transactions. In brief, these transactions are:

- » The sale or exchange, or leasing of any property between the IRA and a disqualified person;
- » The lending of money or other extension of credit between the IRA and a disqualified person;
- » The furnishing of goods, services or facilities between the IRA and a disqualified person;
- » The transfer to, or use by or for the benefit of a disqualified person of the income or assets of the IRA;
- » Any act by a disqualified person who is a fiduciary whereby he/she deals with the income or assets of an IRA in his/her own interest or for his/her own account; or
- » The receipt of any consideration for his/her own personal account by any disqualified person who is a fiduciary from any party dealing with the IRA in connection with the transaction involving the income or assets of the IRA. For purposes of the prohibited transaction rules, a "disqualified person" will include you, your beneficiary and persons or entities (corporations, trusts, estates or partnerships) which stand in close relationship to you. Of course, the prohibited transaction rules do not apply to your receipt of normal retirement benefits under your IRA. If you or your beneficiary engages in a prohibited transaction involving your IRA, the IRA will lose its tax-exempt status. Furthermore, you (or the beneficiary involved) must include the entire fair market value of

the IRA balance in gross income for the taxable year in which the prohibited transaction occurs. For example, if you borrow any money from your IRA or use any portion of your IRA as security for a loan, generally all of your account will be included in income and subject to the 10% additional tax on early distributions, if you are not yet 59½ or disabled.

## **Investments**

You are solely responsible for making any investment decision regarding your IRA assets.

URS offers 20 investment options (8 individual funds and 12 Target Date Funds), and a self-directed brokerage account (Personal Choice Retirement Account (PCRA) offered through Charles Schwab). When enrolling in a URS IRA, you should elect an investment allocation for future deposits. This allocation will direct URS how to invest your money each time a new deposit is added to your account (whether through contributions or rollovers). If you do not submit an investment allocation for future deposits, URS will deposit your funds in the Target Date Fund that corresponds to your birthdate. You may change this allocation at any time on the URS website through myURS or by submitting an *IRA Contribution and Investment Change Agreement*. You may also transfer the funds within your account among the 20 investment options. However, transfers among investment options are allowed no more frequently than once every seven calendar days. The growth in value of your URS IRA will depend on the investment decisions made by you and is neither guaranteed nor projected.

### **Investment and Administrative Expenses**

Investment fees are charged by the fund managers to cover the costs of investing your money. Administrative fees cover the costs of maintaining a retirement plan, such as customer service, statements and recordkeeping. Both fees are charged as a fraction of a percent of assets under management and are calculated in each fund's daily unit value. Therefore, balances in your account and all rates of return are shown after these fees have been deducted.

### **Additional Information**

This Disclosure Statement, together with the plan document and guidebook should answer most questions concerning your IRA. If you have additional questions regarding IRAs, you should consult your tax advisor. You may obtain additional information regarding IRAs from any District Office of the Internal Revenue Service. Please See *IRS Publication 590-A*, *IRS Publication 590-B* and *IRS Publication 560*, which are updated annually.