Preferred Trust Company Disclosure Statement | Roth IRA

You have the right to revoke your IRA within seven days of the receipt of the disclosure statement. If revoked, you are entitled to a full return of the contribution you made to your IRA. The amounts returned to you will not be inclusive of any adjustments for commissions, administrative fees, or any change in market value. You may make this revocation only by mailing or delivering a written notice to Preferred Trust Company LLC ("Preferred Trust") at the address listed on the Application or by other electronic means mutually agreed upon and allowed by law.

If you send your notice by first class mail, your revocation will be deemed mailed as of the postmark date. If notice is received by fax or other electronic means, your revocation will be deemed delivered as of the date submitted.

If you have any questions about the procedure for revoking your IRA, please call Preferred Trust at the telephone number listed on the Application.

REQUIREMENTS OF A ROTH IRA

A. CASH CONTRIBUTIONS – Your contribution must be in cash unless it is a rollover contribution.

B. MAXIMUM CONTRIBUTION – The total amount you may contribute to a Roth IRA for any taxable year cannot exceed the lesser of 100 percent of your compensation or $6,500 for year 2023, $6,000 for year 2022, with possible cost-of-living adjustments thereafter. If you also maintain a Traditional IRA, (i.e., an IRA subject to the limits of Internal Revenue Code Section (IRC Sec.) 408 (a) or 408 (b)), the maximum contribution to your Roth IRAs is reduced by any contributions you make to your Traditional IRA. Your total annual contribution to all Traditional IRAs and Roth IRAs cannot exceed the lesser of the dollar amounts described above or your taxable compensation for the year.

Your Roth IRA contribution is further limited by your modified adjusted gross income (MAGI).

For 2023, your Roth IRA contribution limit is reduced (phase out) in the following circumstances:

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least $218,000. You cannot make a Roth IRA contribution if your modified AGI is $228,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2023 and your modified AGI is at least $138,000. You cannot make a Roth IRA contribution if your modified AGI is $153,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is $10,000 or more.

For 2022, your Roth IRA contribution limit is reduced (phase out) in the following circumstances:

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least $204,000. You cannot make a Roth IRA contribution if your modified AGI is $214,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2022 and your modified AGI is at least $129,000. You cannot make a Roth IRA contribution if your modified AGI is $144,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is $10,000 or more.

Refer to IRS Publication 590 for further detailed information on the calculation of your Roth Contribution amount.

C. 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 contribution is not limited by your participation in a retirement plan, other than a Traditional IRA.

D. CATCH-UP CONTRIBUTIONS – If you are age 50 or older by the close of the taxable year, you can make catch-up contributions to your traditional or Roth IRA up to $1,000 in 2023 and 2022.

E. NONFORFEITABILITY – Your interest in your Roth IRA is non-forfeitable.

F. ELIGIBLE CUSTODIANS – The Custodian of your Roth IRA must be a bank, savings and loan association, credit union, or a person or entity approved by the Secretary of the Treasury.

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

H. LIFE INSURANCE – No portion of your Roth IRA may be invested in life insurance contracts.

I. COLLECTIBLES – You may not invest the assets of your Roth IRA in collectibles (within the meaning of IRC Sec. 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Internal Revenue Service (IRS). However, 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 Roth IRA investments.

J. BENEFICIARY PAYOUTS - Your designated beneficiary is determined based on the beneficiaries designated as of the date of your death. The entire amount remaining in your account will, at the election of your beneficiary(s), either:

- Be distributed by December 31 of the year containing the fifth anniversary of your death, or
- Be distributed over the remaining life expectancy of your designated beneficiary(s).

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 you would have attained age 70½. Your designated beneficiary(s), 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(s) other than an individual or qualified trust as defined in the Regulations is named, you will be treated as having no designated beneficiary(s) 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 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.

INCOME TAX CONSEQUENCES OF ESTABLISHING A ROTH IRA

A. CONTRIBUTIONS NOT DEDUCTED – No deduction is allowed for Roth IRA contributions, including transfers, rollovers, and conversion contributions.

B. CONTRIBUTION DEADLINE – You can make contributions to a Roth IRA for a year at any time during the year or by the due date of your return for that year (not including extensions).

C. TAX CREDIT FOR CONTRIBUTIONS – An individual who makes eligible contributions to either a traditional or a Roth IRA may be eligible for the saver's tax credit. The amount of the credit is based on income and filing status. For qualifying individuals, the credit rate can be as low as 10 percent and as high as 50 percent, depending on the individual's AGI. The lower the individual's income, the higher the credit rate. See IRS Publication 590 for additional information.

D. TAX-DEFERRED EARNINGS – The investment earnings of your Roth IRA are not subject to federal income tax as they accumulate in your Roth IRA. In addition, distributions of your Roth IRA earnings will be free from federal income tax if you take a qualified distribution.

E. TAXATION OF DISTRIBUTONS – The taxation of Roth IRA distributions depends on whether the distribution is a qualified distribution or a non-qualified distribution.

1. **Qualified Distribution**. A qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements:
    a. 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
    b. The payment or distribution is made on or after the date your reach age 59 ½, made because you are disabled, made to a beneficiary or to your estate after your death, or the purchase of a first home.
2. **Non-Qualified Distribution**. If you receive a distribution that is not a qualified distribution, you may have to pay the 10 percent additional tax on early distributions. There is a set order in which contributions (including conversion contributions and rollover contributions from qualified retirement plans) and earnings are considered distributed from your Roth IRA. For these purposes, disregard the withdrawal of excess contributions and the earnings on them. Or the distributions as follows:
    a. Regular contributions
    b. Conversion and rollover contributions, on a first-in, first-out basis (generally, total conversions and rollovers from the earliest first year). Take these conversion and rollover contributions into account as follows:
        - Taxable portion (the amount required to be included in gross income because of the conversion or rollover) first, and then the
        - Nontaxable portion
    c. Earnings on contributions

Disregard rollover contributions from other Roth IRAs for this purpose. See IRS Publication 590 for more detailed information.

F. REQUIRED MINIMUM DISTRIBUTIONS – You are not required to take distributions from your Roth IRA at any age. The minimum distribution rules that apply to traditional IRAs do not apply to the Roth IRAs while the owner is alive. However, after the death of a Roth IRA owner, certain of the minimum distribution rules that apply to traditional IRAs also apply to Roth IRAs. You cannot use your Roth IRA to satisfy minimum distribution requirements for your traditional IRA. Nor can you use distributions from traditional IRAs for required distributions form Roth IRAs.

G. ROLLOVERS AND CONVERSIONS – You may be able to convert amounts from either a traditional, SEP, or SIMPLE IRA into a Roth IRA. You may be able to roll over amounts from a qualified retirement plan to a Roth IRA. You may be able to re-characterize contributions made to one IRA as having been made directly to a different IRA. You can roll amounts over from a designated Roth account or from one Roth IRA to another Roth IRA.

1. **Roth IRA to Roth IRA Rollovers**. You can withdraw, tax free, all or part of the assets from one Roth IRA if you contribute them within 60 days to another Roth IRA. Rollovers from retirement plans other than Roth IRAs are disregarded for purposes of the 1-year waiting

period between rollovers. A rollover from a Roth IRA to an employer retirement plan is not allowed. A rollover from a designated Roth account can only be made to another designated Roth account or to a Roth IRA. If you roll over an amount from one Roth IRA to another Roth IRA, the 5-year period used to determine qualified distributions does not change. The 5-year period begins with the first taxable year for which the contribution was made to the initial Roth IRA.

2. **Traditional to Roth IRA Conversions**. You can convert a traditional IRA to a Roth IRA. The conversion is treated as a rollover, regardless of the conversion method used. You can convert amounts from a traditional IRA to a Roth IRA in any of the following three ways:
   - Rollover. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.
   - Trustee-to-trustee transfer. You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.
   - Same trustee transfer. If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer an amount from the traditional IRA to the Roth IRA. Conversion made with the same trustee can be made by redesigning the traditional IRA as a Roth IRA, rather than opening a new account or issuing a new contract. You must include in your gross income distributions made from a traditional IRA that you would have had to include in income if you had not converted them into a Roth IRA. These amounts are normally included in income on your return for the year that you converted them from a traditional IRA to a Roth IRA.
3. **SIMPLE IRA to Roth IRA Conversions**. You are eligible to convert all or any portion of your existing savings incentive match plan for employees of small employers (SIMPLE) IRA(s) into your Roth IRA(s), provided two years have passed since you first participated in a SIMPLE IRA plan sponsored by your employer. If you are age 70½ or older you must remove your required minimum distribution prior to converting your SIMPLE IRA. The amount of the conversion from your SIMPLE IRA to your Roth IRA shall be treated as a distribution for income tax purposes and is includible in your gross income. Although the conversion amount is generally included in income, the 10 percent early distribution penalty shall not apply to conversions from a SIMPLE IRA to a Roth IRA, regardless of whether you qualify for any exceptions to the 10 percent penalty.
4. **Rollover from Employer's Plan into a Roth IRA**. You can rollover into a Roth IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's), Employer's qualified pension, profit-sharing, or stock bonus plan (including a 401(k) plan); annuity plan; tax-sheltered annuity plan (IRC Sec. 403(b) plan); or governmental deferred compensation plan (IRC Sec. 457 plan). Any amount rolled over is subject to the same rules for converting a traditional IRA into a Roth IRA. The rollover contribution must meet the rollover requirements that apply to the specific type of retirement plan.
5. **Rollover by non-spouse beneficiary**. If you are a designated beneficiary (other than a surviving spouse) of a deceased employee, you can roll over all or part of an eligible rollover distribution. You must make the rollover by a direct trustee-to-trustee transfer into an inherited Roth IRA. You will determine your required minimum distributions in years after you make the rollover based on whether the employee died before his or her required beginning date for taking distributions from the plan. For more information see Distributions after the employee's death under Tax on Excess Accumulation in IRS Publication 575.
6. **Rollover of Military Death Benefits**. If you received a military death gratuity or Service-members' Group Life Insurance (SGLI) payment with respect to a death from injury that occurred after October 6, 2001, you can contribute (roll over) all or part of the amount received to your Roth IRA. The contribution is treated as a qualified rollover contribution. The amount you can roll over to your Roth IRA cannot exceed the total amount that you received reduced by any part of that amount that was contributed to a Coverdell ESA or another Roth IRA. Any military death gratuity or SGLI payment contributed to a Roth IRA is disregarded for purposes of the 1-year waiting period between rollovers. The rollover must be completed before the end of the 1-year period beginning on the date you received the payment. The amount contributed to your Roth IRA is treated as part of your cost basis (investment in the contract) in the Roth IRA that is not taxable when distributed.
7. **Rollover of Airline Payments**. If you are a qualified airline employee, you may contribute any portion of an airline payment you receive to a Roth IRA. The contribution must be made within 180 days from the date you received the payment. The contribution will be treated as a qualified rollover contribution. The rollover contribution is included in income to the extent it would be included in income if it were not part of the rollover contribution. Also, any reduction in the airline payment amount on account of employment taxes shall be disregarded when figuring the amount, you can contribute to your Roth IRA. A Qualified airline employee is a current or former employee of a commercial airline carrier who was a participant in a qualified defined benefit plan maintained by the carrier which was terminated or became subject to restrictions under IRC Sec. 402(b) of the Pension Protection Act of 2006. These provisions also apply to surviving spouses of qualified airline employees. An airline payment is any payment of money or other payment that is paid to a qualified airline employee from a commercial airline carrier. The payment also must be made both:

   - Under the approval of an order of federal bankruptcy court in a case filed after September 11, 2001, and before January 1, 2007, and
   - In respect of the qualified airline employee's interest in a bankruptcy claim against the airline carrier, any note of the carrier (or amount paid in lieu of a note being issued), or any other fixed obligation of the carrier to pay a lump sum amount.

   Any reduction in the airline payment amount on account of employment taxes shall be disregarded when figuring the amount, you can roll over to your traditional IRA. Also, an airline payment shall not include any amount payable based on the airline carrier's future earnings of profits.
8. **Rollover of Exxon Valdez Settlement Income.** If you are a qualified taxpayer and you received qualified settlement income, you can contribute all, or part of the amount received to an eligible retirement plan which includes a Roth IRA. The rules for contributing qualified settlement income to a Roth IRA are the same as the rules for contributing qualified settlement income to a traditional IRA with the following exception. Qualified settlement income that is contributed to a Roth IRA, or to a designated Roth account, will be:
   - Included in your taxable income for the year the qualified settlement income was received, and
   - Treated as part of your cost basis (investment in the contract) in the Roth IRA that is not taxable when distributed.
9. **Transfer Due to Divorce.** If all or any part of your Roth IRA is awarded to your spouse or former spouse in a divorce or legal separation proceedings, the amount so awarded will be treated as the spouse's Roth IRA (and may be transferred pursuant to a court-approved

divorce decree or written legal separation agreement to another Roth 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 Roth IRA to another.

10. **Re-characterizations.** A re-characterization allows you to "undo" or "reverse" a rollover or conversion to a Roth IRA. If you do this by the due for your tax return (including extensions), you can treat the contribution as made to the traditional IRA for that year. You can only re-characterize amounts rolled into a Roth IRA from an employer-sponsored retirement plan by transferring them to a new or existing traditional IRA, and not back into the plan from which they were distributed. You generally can re-characterize your rollover or conversion by October 15 of the following year, regardless of whether you requested an extension to file your tax return. If you re-characterize all or part of a rollover or conversion to a Roth IRA, you cannot reconvert the amount re-characterized to the same or another Roth IRA until the later of:
    - 30 days after the re-characterization, or
    - The year following the year of the rollover conversion.

LIMITATIONS AND RESTRICTIONS

A. SPOUSAL IRA – You can contribute to a Roth IRA for your spouse provided the contributions satisfy the Kay Bailey Hutchinson Spousal IRA limit. For 2022 and 2023, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following amounts:
    1. $6,500 ($7,500 if you are age 50 or older), or
    2. The total compensation includible in the gross income of both you and your spouse for the year, reduced by the following two amounts:
        a. Your spouse's IRA contribution for the year to a traditional IRA, and
        b. Any contributions for the year to a Roth IRA on behalf of your spouse.

   This means that the total combined contributions that can be made for the year to your IRA and your spouse's IRA can be as much as $13,000 ($14,000 if only one of you is age 50 or older, or $15,000 if both of you are age 50 and older).
B. GIFT TAX – Transfers of your Roth IRA assets to a beneficiary made during your life and at your request may be subject to federal gift tax under IRC Sec. 2501.
C. SPECIAL TAX TREATMENT – Capital gains treatment and 10-year forward income averaging authorized by IRC Sec. 402 do not apply to IRA distributions.
D. INCOME TAX TREATMENT – Any nonqualified withdrawal of earnings from your Roth IRA may be subject to federal income tax withholding. You may elect not to have withholding apply to your Roth IRA withdrawal. If withholding is applied to your withdrawal, it must not be less than 10 percent of the amount withdrawn.
E. PROHIBITED TRANSACTIONS – If you or your beneficiary engage in a prohibited transaction with your Roth IRA, as described in IRC Sec. 4975, your Roth IRA will lose its tax deferred or tax-exempt status, and you generally include the value of the earnings in your account in your gross income for the taxable year you engage in the prohibited transaction. A prohibited transaction is any improper us of your IRA account or annuity by you, your beneficiary, or any disqualified person. Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendent, and any spouse of a lineal descendant). Examples of prohibited transactions with an IRA include, borrowing money from it, selling property to it, using it as security for a loan, buying property for personal use (present or future).
F. PLEDGING – If you use a part of your Roth IRA account as security for a loan, that part is treated as a distribution and is included in your gross income.

FEDERAL TAX PENALTIES

A. EARLY DISTRIBUTIONS – If you receive a distribution from your Roth IRA that is not a qualified distribution, you may have to pay the 10 percent additional tax on early distributions. 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 rollover an amount from a qualified retirement plan to a Roth IRA, you take a distribution from a Roth IRA, you may have to pay the 10 percent additional tax on early distributions. You generally must pay the 10 percent additional tax on any amount attributable to the part of the amount converted or rolled over that you had to include in income. Unless one of the exceptions listed below applies, you must pay the 10 percent additional tax on the taxable part of any distributions that are not qualified distributions:
    - You have reached age 59 ½.
    - You are totally and permanently disabled.
    - You are the beneficiary of a deceased IRA owner.
    - You use the distribution to buy, build, or rebuild a first home.
    - The distributions are part of a series of substantially equal payments.
    - You have unreimbursed medical expenses that are more than 10 percent (or 7.5 percent if you or your spouse was born before January 2, 1949) of your AGI for the year.
    - You are paying medical insurance premiums during a period of unemployment.
    - The distributions are not more than your qualified higher education expenses.
    - The distribution is due to an IRS levy of the qualified plan.
    - The distribution is a qualified reservist distribution.

B. EXCESS CONTRIBUTION PENALTY – A six (6) percent tax applies to any excess contribution to a Roth IRA.
C. EXCESS ACCUMULATION PENALTY – Your beneficiary is generally required to take certain required minimum distributions after your death. An additional tax of 50 percent is imposed on the amount of the required minimum distribution which should have been taken but was not.
D. REPORTING ADDITIONAL TAX – Use Form 5329 to report any additional taxes.

OTHER

A. IRS PLAN APPROVAL – The Agreement used to establish this Roth 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 additional information related to Roth Individual Retirement Arrangements, please contact your local IRS Office, call 1-800-TAX-FORM, or visit the IRS website at www.irs.gov. Additional information can be found in IRS Publication 590 and IRS Publication 560 – Retirement Plans for Small Business.

C. PROCEDURES FOR OPENING A NEW ACCOUNT – To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When you open an account, you are required to provide your name, residential address, date of birth, and social security number or appropriate tax identification number. We may require additional information that will allow us to identify you.

D. QUALIFIED RESERVIST DISTRIBUTIONS - A qualified reservist distribution is not subject to the additional tax on early distributions. Please refer to IRS Publication 590 for further detailed information.

E. CHARITABLE DISTRIBUTIONS – A qualified charitable distribution (QCD) is generally a nontaxable distribution made directly by the trustee of your Roth IRA to an organization eligible to receive tax-deductible contributions. Special tax rules may apply. You must be at least age 70 ½ when the distribution was made. The maximum annual exclusion for QCDs is $100,000. Any QCD is excess of the $100,000 exclusion limit is included in income as any other distribution. For further information you may wish to obtain IRS Publication 590.

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