

ira

individual retirement accounts

More Questions?

Your credit union will be happy to help you find answers to your questions. Call or stop in today.

Traditional IRA



Not intended as tax advice. Please consult a tax professional.

Grow dollars for tomorrow, save on taxes today.

A traditional IRA may provide you significant immediate tax savings, and due to the deferral of all taxes on earnings, the power of compound earnings is strengthened.

With a traditional IRA:

- *Earnings accumulate tax-deferred*
- *Contributions are tax-deductible if you qualify*
- *The amount you can contribute each year is increasing*

Is the traditional IRA for you?

This brochure will help you decide, because it contains answers to the most frequently asked questions about traditional IRAs.

If you still have questions after reading this brochure, your credit union will be happy to help you find the answers.



Q. What is a traditional IRA?

A. A traditional IRA is a type of retirement plan that has been in existence since 1975. Traditional IRAs offer tax-deferred earnings and the possibility for tax-deductible contributions. These tax advantages make the traditional IRA a powerful tool in creating a balanced, long-term savings plan.

Q. How does a traditional IRA work?

A. You can contribute to a traditional IRA if you earn compensation and you will not reach age 70½ by the end of the year. Earnings in a traditional IRA are not taxed until they are withdrawn. The ability to defer taxes on the earnings, and to withdraw in a year when you may be in a lower tax bracket, can mean more after-tax dollars for your retirement.

Q. How much can I contribute to a traditional IRA?

A. If you meet the eligibility tests described above and you are under age 50, you can contribute up to \$4,000 annually for 2007, and up to \$5,000 for 2008. For owners age 50 or older, your annual contribution limit is \$5,000 for 2007, and \$6,000 for 2008.

Q. If I contribute to a Roth IRA, can I contribute to a traditional IRA, too?

A. Yes, you can. However, the limits on annual contributions described on the previous page apply to any combination of traditional and Roth IRA contributions that you make for the year.

Q. Can I still contribute to a traditional IRA if I participate in an employer-sponsored retirement plan?

- A.** Yes, your participation in an employer-sponsored retirement plan will not affect your ability to contribute to a traditional IRA (assuming age and compensation requirements are met). However, higher-income earners will lose their ability to deduct their traditional IRA contributions if participating in an employer-sponsored plan.

Q. How much can I deduct?

- A.** The amount you can deduct is dependent upon income, marital status, and whether you are an active participant in an employer retirement plan. If you are single, or married and neither spouse is an active participant in a qualified retirement plan, your traditional IRA contribution is deductible regardless of income. If you or your spouse is an active participant, you may deduct contributions only if your income is below certain limits.

Smaller deductions are available if your income is within the phase-out range, which is determined by your filing status. Higher-income earners with retirement plans may still contribute, but deductions are not available if income is over the phase-out range.

If you have questions about your specific tax situation, please consult your tax advisor for an interpretation of how these rules apply to you.

Q. If I withdraw money from my traditional IRA before age 59½, do I pay a penalty?

- A.** In general, you must pay a ten percent tax on withdrawals before age 59½. But the early withdrawal tax does not apply in the following situations:
- a) Amount is rolled over or directly transferred to another traditional IRA
 - b) Amount is properly converted to a Roth IRA
 - c) Withdrawal of a contribution before the early withdrawal deadline
 - d) Withdrawal of an excess contribution after the filing deadline if certain conditions are met
 - e) Payment is made to your beneficiaries after your death
 - f) Withdrawal of up to \$10,000 for a first-time home purchase
 - g) Amount is used to pay for qualified post-secondary education expenses
 - h) Amount is used to pay for medical expenses in excess of 7.5% of Adjusted Gross Income (AGI)
 - i) Amount is for qualifying pre-59½ periodic payments
 - j) Distribution is to an owner who is disabled (as defined by the IRS code)
 - k) Distribution is for medical insurance premiums during unemployment that lasts 12 weeks or longer
 - l) Payment of a federal tax levy

Q. What about income taxes when I withdraw from my traditional IRA?

A. You will owe income taxes when you withdraw from your traditional IRA. However, if you make nondeductible contributions to a traditional IRA or roll over nondeductible contributions you made to a qualified retirement plan, a portion of each withdrawal will be treated as the nontaxable return of these contributions.

Q. When must I begin receiving distributions from my traditional IRA?

A. You must begin receiving required minimum distributions from your traditional IRA at age 70½. The minimum distributions each year will be computed using an IRS formula. You are allowed to delay the first year's payment until April 1 of the following year, but you will receive two years' worth of payments in that year if you choose to delay.

Q. Can I move funds from a qualified retirement plan to a traditional IRA?

A. If you are entitled to receive an eligible rollover distribution from an employer's plan, you can continue deferring taxes by moving the money into a traditional IRA. The best way to do this is to inform the plan administrator that you want the funds moved directly to your traditional IRA in a direct rollover. The plan administrator will inform you before making an eligible rollover distribution.

Q. Can I move money from a traditional IRA to a Roth IRA?

A. You can move money from your traditional IRA to a Roth IRA if you meet defined income limits and you are either single or married and filing a joint tax return. In the year you convert, you will have to pay federal income taxes on the amount that you move, except the portion that is treated as the return of your traditional IRA basis. You may also be subject to state income taxes. Starting in 2010, anyone with a traditional IRA can convert it into a Roth IRA. And you can spread the taxable income resulting from conversions made in 2010 over 2011 and 2012, rather than paying the tax in 2010. Contact your financial professional regarding your individual circumstances.

Q. What happens to my traditional IRA after my death?

A. You may designate one or more beneficiaries to receive your IRA after your death. If your spouse is your beneficiary, he or she may directly transfer your traditional IRA to his or her own IRA tax-free. In addition, all beneficiaries have the option of taking a lump-sum payment or periodic payments over a number of years. Any tax-deferred money in your traditional IRA at the time of death will be taxed when it is distributed to your beneficiaries.

