

Understanding Individual Retirement Accounts



*For people
on the move*

What is an IRA?



Established by the Federal Government, an IRA is an Individual Retirement Account.

It is a method to encourage retirement savings.



Timeline of IRAs

1974

- Introduced with enactment of the Employee Retirement Income Security Act (ERISA)
- Initially program restricted IRAs to workers not covered by a qualified employment-based retirement plan
- Maximum contribution was \$1,500



Timeline of IRAs

1981

- Economic recovery Tax Act allowed all taxpayers under the age of 70 ½ to contribute to an IRA, regardless of their coverage under a qualified plan.
- Maximum annual contribution raised to \$2,000.
- Allowed participants to contribute \$250 on behalf of a nonworking spouse.



Timeline of IRAs

1986

- The Tax Reform Act of 1986 reversed the trend toward expanded participation by phasing out the deduction for IRA contributions among higher-earning workers who are covered by an employment-based retirement plan themselves or who have a covered spouse.



Timeline of IRAs

1996

- Small Business Job Protection Act 1996 – raised the limit on contributions on behalf of non-working spouses from \$250 to \$2,000.

1997

- Taxpayer Relief Act of 1997 created Roth IRAs. Purpose was to encourage retirement savings.



Timeline of IRAs

2001

- Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Raised limits on contributions beginning in 2002 and allowed “catch-up”, contributions by people ages 50 and above.

2006

- Congress makes it easier for high-income taxpayers to contribute to Roth IRAs



Types of IRAs

- Traditional
- Roth
- Spousal
- Rollover
- SEP
- SIMPLE



Traditional IRA

Contributions are often tax-deductible.
All transactions and earnings within the IRA have no tax impact and withdrawals at retirement are taxed as income.



Roth IRA

Contributions are made with after-tax assets. All transactions within the IRA have no tax impact, and withdrawals are usually tax free.



SEP IRA

SEP – Simplified Employee Pension

- A provision that allows an employer to make retirement plan contributions into a Traditional IRA established in the employee's name, instead of to a pension fund account in the company's name.



SIMPLE IRA

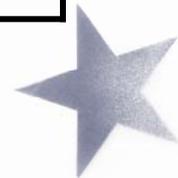
SIMPLE IRA – Savings Incentive Match Plan for Employees IRA

- A simplified employee pension plan that allows both employer and employee contributions, similar to a 401(k) plan, but with lower contribution limits and simpler administration.



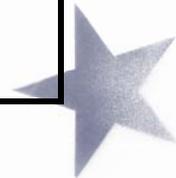
Traditional vs. Roth IRA

TRADITIONAL	ROTH
Tax deferred growth	Tax free growth
Early distribution subject to tax and penalty (exception to penalty may apply)	Distributions up to amount of total contribution allowed without taxation and without penalty (Earnings subject to tax and subject to penalty unless exception applies)



Traditional vs. Roth IRA (cont.)

TRADITIONAL	ROTH (must have earned income)
No contribution after 70 ½	Contributions at any age
Minimum distribution requirement after age 70 ½	No distribution requirement for the owner
No retirement plan – no AGI limit to deductions	AGI limits contributions (never deductible)
Retirement plan – AGI limits deductions	



Traditional vs. Roth IRA (cont.)

TRADITIONAL	ROTH
Taxable to beneficiaries	Qualified distributions tax free to owner or beneficiaries
Timely distributions after 59 ½	Five-year holding period determines qualified distributions
Usually generates a lower AGI in contribution year	No effect on AGI in contribution year.



Contribution limits

- Traditional – \$4,000
 - 50 and over an additional \$1,000
- Roth – \$4,000
 - 50 and over an additional \$1,000



Traditional IRA Plan Limits

FILING STATUS	AGI FOR FULL DEDUCTION	AGI FOR PARTIAL DEDUCTION	AGI FOR NO DEDUCTION
S, HH, MFS	\$50,000 or less	\$50,000 - \$59,000	\$60,000 or more
MFJ, QW	\$70,000 or less	\$70,001 - \$79,999	\$80,000 or more



Roth IRA Plan Limits

FILING STATUS	AGI FOR FULL DEDUCTION	AGI FOR PARTIAL DEDUCTION	AGI FOR NO DEDUCTION
S, HH, MFS	\$95,000 or less	\$95,001 - \$109,999	\$110,000 or more
MFJ, QW	\$150,000 or less	\$150,001 - \$159,999	\$160,000 or more



Advantages

- Traditional (tax-deductible)
 - Save for your retirement
 - Contributions are tax deferred
 - May help reduce your taxes
 - Investment income is not taxed until it is withdrawn



Advantages

- Roth
 - Contributions can be made after age 70 ½, if you receive earned income
 - Contribution eligibility is not restricted by active participation in an employer's retirement plan



Advantages

- Roth (cont.)
 - Withdrawals of earnings are tax-free
 - Death
 - Disability
 - First time home-buying
 - After age 59 ½



Comparison – taxes due after 70 ½

- **Tax-Deductible IRA**
 - Income tax due on earnings and original contributions
- **Nondeductible IRA**
 - Income tax due on earnings (original contributions are withdrawn tax-free)



Comparison – taxes due after 70 ½

- Roth
 - No tax due if funds are held in the account for at least five years
 - Total amount of annual contributions can be withdrawn tax-free and penalty-free at any time.



Taxes Due After 59 ½

- **Tax-Deductible IRAs**
 - Income tax due on earnings and original contributions
- **Nondeductible IRAs**
 - Income tax due on earnings (original contributions are withdrawn tax-free).
- **Roth IRAs**
 - No tax due if funds are held in the account for at least five years. Total amount of annual contributions can be withdrawn tax-free and penalty free at any time.



Early withdrawals

EARLY WITHDRAWAL - HIGHER EDUCATION		
IRA Type	10% Penalty	Income Tax Due
Tax-Deductible	No	Yes
Nondeductible IRA	No	On earnings, not original contributions
Roth - less than five years	No	On earnings, not original contributions
Roth - more than five years	No	On earnings, not original contributions

EARLY WITHDRAWAL - FIRST TIME HOME PURCHASE		
IRA Type	10% Penalty	Income Tax Due
Tax-Deductible	No	Yes
Nondeductible IRA	No	On earnings, not original contributions
Roth - less than five years	No	On earnings, not original contributions
Roth - more than five years	No	No



Early withdrawals

EARLY WITHDRAWAL - DEATH OR DISABILITY		
IRA Type	10% Penalty	Income Tax Due
Tax-Deductible	No	Yes
Nondeductible IRA	No	On earnings, not original contributions
Roth - less than five years	No	On earnings, not original contributions
Roth - more than five years	No	No

EARLY WITHDRAWAL - ANY OTHER REASON		
IRA Type	10% Penalty	Income Tax Due
Tax-Deductible	Yes, with exceptions	Yes
Nondeductible IRA	On earnings with exception	On earnings, not original contributions
Roth - less than five years	On earnings with exception	On earnings, not original contributions
Roth - more than five years	On earnings with exception	No



Spousal IRAs

A nonworking spouse can make a deductible contribution of up to \$4,000 for 2007 - \$5,000 if age 50 or older as of 12/31/07 as long as the couple files a joint return and the working spouse has enough income to cover the contribution.



Rollover IRAs

This IRA is set up by an individual to receive a distribution from a qualified retirement plan.

There is a 60 day window to withdraw from one plan and rollover into another IRA without incurring a penalty.



In summary

- The sooner you start saving for your retirement, the better off you'll be!
- Compare the IRAs carefully –
 - Traditional
 - Tax deductible
 - Nondeductible
 - Roth

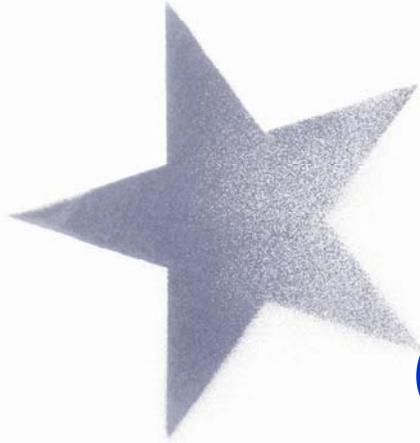


In summary (cont.)

The information provided in this seminar is intended to give you an overall understanding of Individual Retirement Accounts.

For questions regarding your specific needs, please consult your tax advisor.





Questions?

For more information on products or services, please contact your local branch, or contact center.

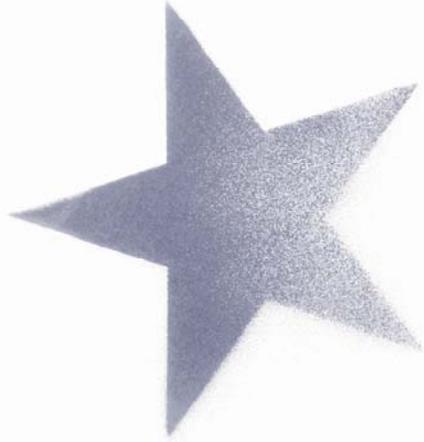
US 800-936-7730

International 00800-4728-2000

feedback@servicecu.org



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Thank you!



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