Learn About IRAs

Traditional IRAs

- How can a Traditional IRA help me save for retirement?
- Who may contribute, and how much?
- What is a spousal contribution?
- What is a SEP Contribution?
- What is an IRA catch-up contribution?
- What is the contribution deadline?
- Are all Traditional IRA contributions tax-deductible?
- May I make a nondeductible contribution?
- Will I get a tax credit for my contribution?
- Can Traditional IRA assets be moved?
- Can other assets be combined in a Traditional IRA?
- When can I use my Traditional IRA assets?
- What are qualified reservist distributions?
- Am I ever required to take distributions from my Traditional IRA?
- For more information...

Today, more than ever before, one of the greatest challenges facing American workers is assuring their financial security in retirement. With uncertainty over the adequacy of Social Security to meet the needs of future retirees, Americans, now and in the future, will be forced to rely more heavily on their own resources to support their retirement lifestyle.

At the same time, the world of employer-sponsored pensions is changing, too. Much less common today is the employer-sponsored defined benefit plan, the kind of plan that assures former employees a dependable income throughout their retirement years. The pension world is changing to one in which employees must make the decision to save for retirement. And even when an employer plan is available, employees may be required to make most or all of the contributions.

How can a Traditional IRA help me save for retirement?

Individual retirement arrangements (IRAs) are one of the most viable answers to the question of how to ensure a secure retirement.

Traditional IRAs offer the following.

- Independence - may be opened and funded without any employer participation
- Immediate tax benefits - tax-deferred earnings until retirement
- Possible deductions - based on retirement plan participation and income
- Accessibility - with funds always available, something not generally true of employer plans
- Flexibility - because there is no minimum contribution in any year

Back to Top

Who may contribute, and how much?

An individual may contribute as long as the IRA holder meets the following.

- Has not reached the year in which you turn 70½, and
- Has earned income equal to or greater than the Traditional IRA contribution.

An IRA holder may contribute up to the lesser of

- 100% of earned income, or
- $5,000 (for 2008 and 2009)

Back to Top

What is a spousal contribution?

The Tax Reform Act created spousal contributions. Spousal contributions allow a compensated spouse to fund an IRA for the other spouse (who individually may have no or minimal income), with certain dollar limits on contributions and deductions. To be eligible to establish a spousal IRA, the following requirements must be met.

1. The couple must be married and must file a joint federal tax return.
2. One spouse must have compensation or earned income equal to or greater than the IRA contribution.
3. An IRA must be established for the noncompensated spouse.
4. The spouse receiving the contribution must be under age 70½.

The amount of money an individual may contribute per taxable year as a spousal contribution is the same as that for regular IRA contributions--$5,000 for 2008 (and for 2009), plus catch-up contributions for those eligible.

Back to Top

What is an IRA catch-up contribution?

IRA holders that attain age 50 before the end of the taxable year may be eligible to contribute an additional $1,000 to a Traditional IRA as a catch-up contribution.

Back to Top

What is the contribution deadline?

Individuals must make regular, spousal, and catch-up IRA contributions to Traditional and Roth IRAs by the due date of their federal income tax returns, not including extensions, for that year. April 15 is usually the due date for most taxpayers. If the deadline for filing an individual's income tax return falls on a weekend or holiday, individuals will have until the following business day to make their contributions.

Contributions made between January 1 and April 15 of one year for the previous year are called carry back contributions.

Back to Top

What is a SEP contribution?

A SEP (simplified employee pension) is a type of retirement plan that allows an employer to contribute to employees' Traditional IRAs. SEP contributions are subject to different contribution limits than Traditional IRA contributions. Once the employer makes a SEP plan contribution to an IRA, the contribution becomes an IRA asset and is subject to all the regular IRA rules and regulations. SEP contributions do not affect the individual's ability to make a Traditional IRA contribution. The following characteristics apply to SEP plans.

- The maximum SEP contribution is the lesser of 25% of compensation or $46,000 for 2008 ($49,000 for 2009).
- Employer SEP contributions are always 100 percent vested.
- Eligible participants who are age 70½ or older may receive SEP plan contributions.

Back to Top

Are all Traditional IRA contributions tax-deductible?

One of the potential benefits of contributing to a Traditional IRA is that a tax deduction may be available. Whether a contribution or a portion of a contribution is deductible depends on active participation (participating in or receiving contributions) in an employer-sponsored retirement plan, marital status, and modified adjusted gross income (MAGI).

IRA Deductibility Phase-Out Ranges for Active Participants

Tax Year	Single Filer	Married Filling a Joint Tax Return	Nonactive Participant Married to an Active Participant
2008	$53,000-$63,000	$85,000-$105,000	$159,000-$169,000
2009	$55,000-$65,000	$89,000-$109,000	$166,000-$176,000

Back to Top

May I make a nondeductible contribution?

Yes. Traditional IRA holders are permitted to make nondeductible IRA contributions if they are not eligible for a tax deduction or if they choose to not take a deduction. The combined total of deductible and nondeductible contributions cannot exceed the annual contribution limit of $5,000 for 2008 (and for 2009), plus catch-up contributions if eligible, or 100 percent of earned income, whichever is less. IRA holders track their nondeductible IRA contributions by filing Form 8606, *Nondeductible IRAs,* with their federal income tax returns.

Back to Top

Will I get a tax credit for my contribution?

Certain individuals may receive a nonrefundable tax credit (called the Saver's Tax Credit) equal to a percentage of IRA and retirement plan contributions up to $2,000. To be eligible for the tax credit, you must.

- have attained age 18 before the end of the taxable year,
- not be a dependent or a full-time student, and
- have adjusted gross income (AGI) within limits.

The following chart highlights the income levels for eligibility for the tax credit and the applicable percentage used to calculate the tax credit:

2008 Adjusted Gross Income

Joint Return		Head of a household		All other cases		Applicable Percentage
Over	Not over	Over	Not over	Over	Not over	
$0	$32,000	$0	$24,000	$0	$16,000	50
$32,000	$34,500	$24,000	$25,875	$16,000	$17,250	20
$34,500	$53,000	$25,875	$39,750	$17,250	$26,500	10
$53,000		$39,750		$26,500		0

2009 Adjusted Gross Income*

Joint Return		Head of a household		All other cases		Applicable Percentage
Over	Not over	Over	Not over	Over	Not over	
$0	$33,000	$0	$24,750	$0	$16,500	50
$33,000	$36,000	$24,750	$27,000	$16,500	$18,000	20
$36,000	$55,500	$27,000	$41,625	$18,000	$27,750	10
$55,500		$41,625		$27,750		0

Please consult with your tax advisor for additional information.

Back to Top

Can Traditional IRA assets be moved?

For various reasons, IRA holders may wish to move their IRA from one financial organization to another. Transfers and rollovers are two methods of moving money or property from one IRA to another IRA of the same type.

A transfer is a direct movement of assets between like IRAs. A transfer generally is from one financial organization to another financial organization, but may occur between like IRAs at the same financial institution. Although IRA holders direct the asset transfer, they do not have actual receipt of the assets. An IRA holder may make an unlimited number of transfers in a year. The transfers may be for all or any part of an IRA balance. Transfers are not reported to the IRS.

An IRA-to-IRA rollover is another method of moving money or property, tax-free from one IRA to another IRA of the same type. With rollovers, the IRA holder surviving spouse beneficiary, or former spouse actually receives the money or property through a distribution before rolling it into another IRA. The distribution that is eventually rolled into an IRA is treated just like any other type of distribution at the time it is taken from the IRA. Consequently, the withholding rules still apply. The distributing financial organization reports the IRA distribution to the IRS, and the receiving financial organization reports the rollover contribution to the IRS.

Back to Top

Can other assets be combined in a Traditional IRA?

Contributions made by an employer through a retirement plan known as a simplified employee pension (SEP) are actually contributed to a Traditional IRA, and they can be combined with regular IRA contributions. Traditional IRAs may receive rollovers of pretax and after-tax assets from eligible employer-sponsored retirement plans, which include 401(a) and 403(a) qualified retirement plans (QRPs), 403(b) plans, governmental 457(b) plans, and SIMPLE IRA plans (after two years of participation in the SIMPLE IRA).

Back to Top

When can I use my Traditional IRA assets?

Unlike most employer retirement plans in which access to funds is limited until you have a change of employment, reach retirement age, access to your IRA funds is guaranteed, always. Taxable distributions taken from a Traditional IRA before the IRA holder reaches age 59½ are generally subject to a 10 percent penalty. This is to discourage people from taking distributions from Traditional IRAs before age 59½. The 10 percent early distribution penalty does not apply in the following situations.

- Age 59½
- Death
- Disability
- Medical expenses
- Health insurance premiums following unemployment
- First home purchase

- Higher education expenses
- IRS levy
- Series of substantially equal periodic payments
- Qualified reservist distributions

Back to Top

What are qualified reservist distributions?

Qualified reservist distributions were created by the Pension Protection Act of 2006. Qualified reservists (including National Guard personnel) called to active duty after September 11, 2001, for a period of at least 180 days—or for an indefinite amount of time—may take penalty-free distributions from IRAs and from deferral accounts in 401(k) and 403(b) plans. This applies to distributions taken between the date of the order or call to duty and the end of the active duty period.

Qualified reservists may recontribute these distributed amounts to IRAs by the later of August 17, 2008, or two years after the end of the active duty period.

Back to Top

Am I ever required to take distributions from my Traditional IRA?

Beginning in the year that a Traditional IRA holder turns age 70½, distributions from a Traditional IRA become mandatory. These mandatory distributions are called required minimum distributions (RMDs). IRA holders must begin taking money out of Traditional IRAs by April 1 following the year they turn 70½. These distributions are based on your IRA balance divided by your life expectancy, either singly or jointly with your IRA beneficiary. Since the purpose of IRAs is to provide for retirement—not to be a tax shelter— IRA holders failing to take their required distributions are subject to a substantial penalty.

Back to Top

For more information...

For more information about the wisdom and ease of opening an IRA, ask one of our representatives for more details today.

Back to Top