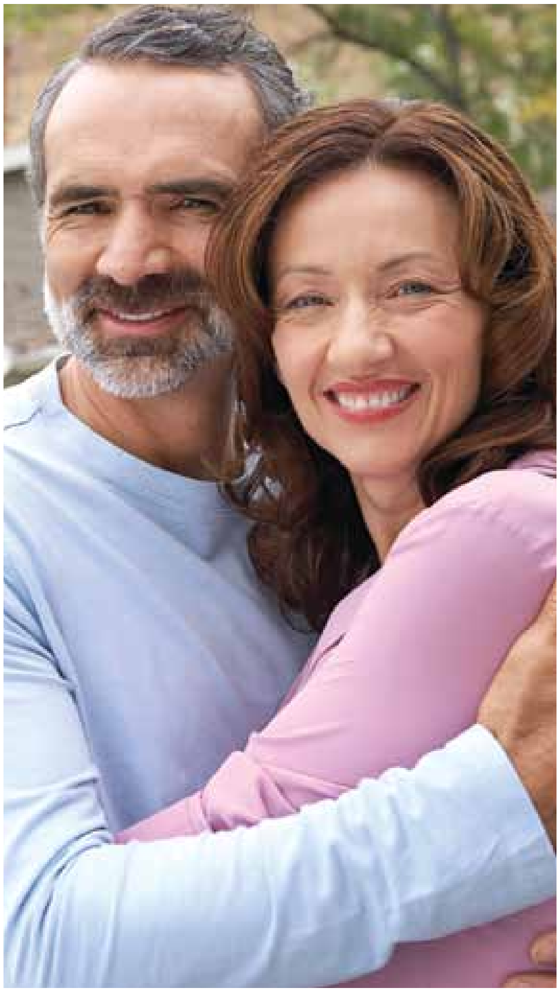
Retirement Planning

TRADITIONAL AND ROTH IRAs



Individual Retirement Accounts (IRAs) are personal savings plans that can offer you tax advantages and can play an important role in building a secure retirement. Two of the most popular types of IRAs are traditional and Roth.

Traditional IRAs

Traditional IRAs offer two kinds of tax advantages. Contributions to a traditional IRA may be tax deductible and your earnings grow tax deferred. Taxes are not paid on earnings until money is taken out of the IRA, which can significantly increase the value of your account.

Contributions

To contribute to a traditional IRA, you must receive earned income and be under age 70½. Contributions cannot exceed your earned income and if you are age 50 or older, you may contribute an additional amount above the basic annual contribution limit. The annual combined traditional and Roth IRA contribution limits are as follows:

	2011	2012 and Beyond
Under Age 50	$5,000	Indexed for Inflation
Age 50 or Older	$6,000	Indexed for Inflation

Also, contributions may be made for an unemployed spouse if the income tax return is filed jointly and the spouse has not reached age 70½ in the year of the contribution.

An individual who is not covered by an employer sponsored retirement plan or government plan may make deductible contributions, up to the annual limits, regardless of their income. If an individual is covered by a pension, profit sharing, stock bonus plan, 403(b) plan, SIMPLE IRA, SEP or a government plan, then deductible contributions are available if their adjusted gross income fits within the limits provided below:

Deductibility of Contributions to Traditional IRA Income Limits		
	Single or Head of Household	Married Filing Jointly
Full contribution deduction if adjusted gross income is less than:	$58,000	$92,000
Partial deduction	$58,001 – $68,000	$92,001 – $112,000
Contribution allowed but not deductible if adjusted gross income is greater than:	$68,001	$112,001

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To maintain your lifestyle, most financial experts recommend that you try to replace 75% to 85% of your pre-retirement income.

2009 *Kiplinger's* Personal Finance Magazine (most recent available)

Direct Rollover

A direct rollover allows you to transfer money from an employer-sponsored retirement plan directly to a traditional IRA when you change jobs or retire. You avoid current taxation and continue to gain tax-deferred growth of retirement assets when selecting a direct rollover.

Withdrawals

You can take withdrawals from your traditional IRA at any time, which are subject to ordinary income taxes. Internal Revenue Service (IRS) penalties may apply if you take withdrawals before age $59\frac{1}{2}$ or if you don't begin required minimum distributions at age $70\frac{1}{2}$.

Age $59\frac{1}{2}$ penalty exceptions

The IRS does provide exceptions to the 10 percent penalty tax, including:

- Rollovers to another IRA within 60 days of receipt
- Distributions upon death or permanent disability
- Substantially equal periodic payments over the IRA owner's life expectancy
- Up to $10,000 for a first-time home purchase
- Higher education expenses for the IRA owner or certain family members
- Medical expenses that exceed 7.5 percent of the IRA owner's adjusted gross income

Roth IRAs

A Roth IRA is a unique retirement savings vehicle – your earnings grow tax deferred and qualified withdrawals are tax free.

Roth IRA Income Limits (Adjusted Gross Income)

	Single or Head of Household	Married Filing Jointly
Full contribution if adjusted gross income is less than:	**$110,000**	**$173,000**
Phase-out Period	**$110,001 – $125,000**	**$173,001 – $183,000**
No contribution if adjusted gross income is above:	**$125,001**	**$183,001**

Contributions

If you have earned income, you may make a non-deductible contribution to a Roth IRA. Contributions to a Roth IRA cannot exceed your earned income or the annual combined traditional/Roth IRA contribution limits (see chart on previous page).

Conversions

You may convert assets in a tax-deferred traditional IRA to a tax-free Roth IRA. Income taxes will be owed on the converted amounts, but the conversion amount will not count toward your annual IRA contribution limit. Conversions are not available if you are married and file separate tax returns.

Conversion Decision – Key Questions to Consider

- Where will you get the money to pay for taxes resulting from the conversion?
- What is the length of your investment period?
- Is your expected tax bracket at retirement higher or lower than it is today?
- What are your inheritance plans for your IRA assets?

Withdrawals

You can take withdrawals from your Roth IRA at any time, but earnings may be subject to ordinary income taxes. Internal Revenue Service penalties may apply if you take withdrawals of earnings before age $59\frac{1}{2}$.

Qualified withdrawals from a Roth IRA are tax free and avoid early withdrawal penalties. Your withdrawal will be tax-free if:

- The IRA has been opened for at least five years, and
- If you reach age $59\frac{1}{2}$, die, become disabled, or need $10,000 to purchase a first home

In addition:

- There are no required minimum distributions from your Roth IRA when you turn age $70\frac{1}{2}$, and
- Qualified withdrawals will pass tax-free to your beneficiaries

Now, more than ever, it is important to begin planning for your retirement.

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