



## Traditional IRAs

### *THE RETIREMENT PLAN FOR EVERYONE*

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-based pensions is changing, too. Employer-sponsored and funded plans, the kind of plan that assures former employees of a dependable income throughout their retirement years are much less common. The plans we see now are ones that employees must make the decision to save and most often, the employees may be required to make most or all of the contributions.

### *HOW CAN I BEGIN TO SAVE FOR RETIREMENT?*

Individual Retirement Arrangements – IRAs – are one of the most viable answers to the question of how to assure a secure retirement.

#### *Traditional IRAs offer*

- ❑ Independence, and can be opened and funded without any employer participation,
- ❑ Immediate tax benefits, with contributions and/or earnings tax-deferred until retirement,
- ❑ Accessibility, with funds always available, something not generally true of employer plans,
- ❑ Flexibility, because there is no minimum contribution in any year, and you choose your own investments and financial organization.

### *WHO CAN CONTRIBUTE, AND HOW MUCH?*

The requirements for contributing to a Traditional IRA are few.

#### *You can contribute for 2008*

- ❑ If you are under age 70-1/2,
- ❑ If you have earned income from employment,
- ❑ Up to a maximum of \$5,000 (\$10,000 for spouses).
- ❑ If you are age 50 or over, you would also be able to make an additional catch up contribution of \$1,000.00.

### *ARE ALL TRADITIONAL IRA CONTRIBUTIONS TAX DEDUCTIBLE?*

Many people are eligible to deduct their contribution from their taxes. Traditional IRA contributors receive a 100% deduction on their annual contribution if

- ❑ They are not an active participant under an employer's retirement plan.

If one or both spouses participate in an employer sponsored plan, Traditional IRA contributions are deductible based on the following guidelines:

One spouse participates and one does not

Married filing jointly Full Deduction for a combined MAGI of \$159,000 or less, partial deduction for combined MAGI of \$159,000 to \$169,000, **NO** deduction for combined MAGI of \$169,000 or more

If both spouses (or a single person) participate in an employer plan, the deductibility of an IRA contribution is as follows:

2008 Filing Status

	<u>Full Deduction for MAGI of</u>	<u>Partial Deduction for MAGI of</u>	<u>No Deduction for MAGI of</u>
<i>Single</i>	\$53,000 or less	\$53,000 to \$63,000	\$63,000 or more
<i>Married filing jointly</i>	\$85,000 or less	\$85,000 to \$105,000	\$105,000 or more
<i>Married filing separately</i>	N/A	\$0 to \$10,000	\$10,000 or more

**SHOULD I CONTRIBUTE IF I CAN'T TAKE A DEDUCTION?**

Yes! There are significant benefits to making a Traditional IRA contribution even if it is not currently tax deductible.

A nondeductible contribution

- Grows tax-deferred, with earning sheltered from taxation until withdrawn,
- Has already been taxed, and will not be taxed again,
- Whether deductible or nondeductible – it is a step closer to a secure retirement.

Quite simply, no taxable, non-IRA investment of the same type will generate nearly the same earnings over a lifetime of saving as nondeductible Traditional IRA contributions will.

**AM I ELIGIBLE TO TAKE A TAX CREDIT FOR MY IRA CONTRIBUTIONS?**

If you fall within certain income limitations, you may be eligible for a tax credit of up to 50 percent of your retirement savings contributions that do not exceed \$2,000. An eligible individual is defined as someone who is:

- 18 years of age as of the close of the taxable year,
- not a dependent of another taxpayer,
- not a full-time student.

Please see a competent tax advisor to determine if you qualify for this credit.

**CAN TRADITIONAL IRA ASSETS BE MOVED?**

Under certain circumstances a Traditional IRA holder may wish to move their Traditional IRA from one financial organization to another. Traditional IRA holders can take comfort in the fact that their Traditional IRA assets are always available to them.

They may be

- ❑ Withdrawn (distributed) and re-deposited elsewhere (called a “rollover”),
- ❑ Moved to another organization by the transaction known as a Trustee-to-Trustee transfer,
- ❑ Moved to a qualified retirement plan, tax-sheltered annuity, or 457(b) deferred compensation plan, as long as the distribution is taxable.

(Your investment choices may limit your ability to transfer and rollover penalty free).

*CAN OTHER ASSETS BE COMBINED IN A TRADITIONAL IRA?*

Contributions made by an employer to a retirement plan known as a simplified employee pension (SEP) are actually contributed to a Traditional IRA, and can be combined with regular Traditional IRA contributions. Assets from a qualified retirement plan, tax-sheltered annuity or 457(b) deferred compensation plan can also be moved to a Traditional IRA by rollover.

*WHEN CAN I USE MY TRADITIONAL IRA ASSETS?*

Most employer retirement plans limit access to funds to such events as change of employment, plan termination, reaching retirement age, death or disability. Traditional IRA funds are always available to you. However, until age 59-1/2 there is a 10 percent early distribution penalty from the IRS unless you qualify for an exemption due to

- ❑ Disability,
- ❑ Qualifying medical expenses,
- ❑ Qualifying education expenses,
- ❑ Unemployment (under certain conditions),
- ❑ Qualifying first home purchases,
- ❑ Death,
- ❑ Receipt of your Traditional IRA assets in equal payments over your life expectancy,
- ❑ IRS tax levy.

*AM I EVER REQUIRED TO TAKE FUNDS FROM MY TRADITIONAL IRA?*

Beginning in the year that a Traditional IRA holder turns age 70-1/2, distributions from a Traditional IRA must begin. These distributions are based generally on the person’s Traditional IRA account balance divided by the applicable distribution period. Since the purpose of Traditional IRAs is to provide for retirement – not to be a tax shelter – IRA holders who fail to take their required distributions are subject to penalty.

*FOR MORE INFORMATION...*

For more information about the wisdom and ease of opening a Traditional IRA, contact the experts at Salem Five. Call Louise A. Mallett, CISP, Vice President at 978-720-5255. Start today on the road to a secure future.

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