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IRAs Compared

There are substantial differences between a traditional (nondeductible) IRA, a traditional (deductible) IRA and a Roth IRA.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Basic eligibility requirements	Any person under age 70½ who has compensation	Any person under age 70½ who has compensation	Any person of any age who has compensation ¹
Maximum contribution	Generally, the lesser of \$4,000 ² (\$8,000 ³ for a married couple) or 100% of compensation. ⁴		
Is the contribution deductible?	No	Yes, if neither participant nor spouse is covered by a qualified plan (QP). If single and covered by a QP, contribution is deductible if adjusted gross income (AGI) is less than \$52,000. Deduction phased out for AGI between \$52,000 and \$62,000. If MFJ and one spouse is covered by a QP, the nonparticipant spouse may make a deductible contribution if AGI is \$156,000 or less. This deduction is phased out for AGI between \$156,000 and \$166,000. The participant spouse may make a deductible contribution if AGI is \$83,000 or less. This deduction is phased out for AGI between \$83,000 and \$103,000. ⁵	No
Are earnings currently taxed?	No	No	No

¹ For 2007, the maximum contribution to a Roth IRA is phased out for single taxpayers with adjusted gross income (AGI) between \$99,000 and \$114,000. For married couples filing jointly, the phaseout range is an AGI of \$156,000 to \$166,000. For married individuals filing separately, the phaseout range is an AGI of \$0 to \$10,000.

² This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$5,000, with adjustments for inflation.

³ This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$10,000, with adjustments for inflation.

⁴ If an IRA participant is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

⁵ These are 2007 limits. For 2006 the phase-out ranges were (1) MFJ - AGI of \$75,000 - \$85,000; (2) Single - \$50,000 - \$60,000. For taxpayers using the MFS filing status, the phase-out range is \$0 - \$10,000, which does not change.

Continued...

IRAs Compared

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Taxation of withdrawals at death and disability¹	Contributions are received tax-free and earnings are taxable.	All distributions are taxable.	No taxation of qualified distributions.
Taxation of \$10,000 withdrawn for first-time home purchase¹	Proportionate part attributable to earnings is taxable	All \$10,000 subject to income tax	No taxation of qualified distributions.
Taxation on withdrawals to pay for medical expenses¹	Proportionate part attributable to earnings taxed as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses; e.g., amounts in excess of 7.5% of AGI.	Entire withdrawal taxable as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses; e.g., amounts in excess of 7.5% of AGI.	Earnings are taxable at ordinary rates unless IRA owner is age 59½ or older and established Roth IRA five or more years prior.
Taxation on withdrawal to pay for educational expenses¹	Proportionate part attributable to earnings is taxable.	Entire withdrawal is subject to income tax.	Earnings are taxable at ordinary rates unless IRA owner is age 59½ or older and established Roth IRA five or more years prior.
Taxation of distributions not covered above²	Nondeductible contributions received tax-free. Earnings are taxed at ordinary rate.	All distributions are taxable at ordinary rates.	Earnings are taxable at ordinary rates unless IRA owner is age 59½ or older and established Roth IRA five or more years prior.
Are there required, minimum distributions?	Distributions must start at age 70½.	Distributions must start at age 70½.	No minimum distribution is required during the life of owner.
Are direct transfers of funds in an IRA to an Health Savings Account allowed?	Yes	Yes	Yes
By when must an IRA be set up and funded?	By the due date for filing the IRA owner's federal income tax return for the year of the contribution, generally April 15 of the following year.		
Federal bankruptcy protection	Federal bankruptcy law protects assets in all IRAs, up to \$1,000,000. In the future, the \$1,000,000 limit will be indexed for inflation. Funds rolled over from qualified plans are protected without limit.		

¹ For individuals under age 59½, the 10% penalty tax does not apply in these situations.

² All taxable amounts are subject to penalty tax of 10% if received prior to age 59½, unless the above exceptions apply. Also, for traditional IRA, the penalty is waived if distribution is annuitized.

Continued...

IRAs Compared

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
May federal income tax refunds be directly deposited into the IRA? ¹	Yes	Yes	Yes
Are tax-free direct transfers of up to \$100,000 to a qualified charity by an owner at least age 70½ allowed? ²	Yes	Yes	Yes

Comparison of Returns from Various Types of IRAs

The table below is a hypothetical illustration of the impact of time and income taxes on the various types of IRAs.³ The calculations assume that any tax savings from deductible contributions are invested in a separate, annually-taxable fund and that all funds are withdrawn in a lump sum at retirement.

Assumptions:

- Desired net annual contribution: \$4,000
- Marginal income tax bracket – pre-retirement: 28.00%
- Marginal income tax bracket – post-retirement: 25.00%
- Tax-deferred growth rate: 8.00%
- After-tax growth rate: 5.76%
- Number of years until retirement: 20



Item	Traditional Nondeductible IRA	Traditional Deductible IRA	Roth IRA
A. Pre-Retirement			
1. Contributions are made	After-tax	Before-tax	After-tax
2. Gross amount	\$5,556	\$4,000	\$5,556
3. Income taxes payable	1,556	0	1,556
4. Net annual contribution to IRA	4,000	4,000	4,000
5. Annual tax savings to taxable account	0	1,120	0
Total net annual savings	\$4,000	\$5,120	\$4,000
B. At Retirement			
1. Net accumulation in the IRA ⁴	\$197,692	\$197,692	\$197,692
2. Future value of tax savings	0	42,465	0
3. Total available before taxes	\$197,692	\$240,157	\$197,692
4. Income taxes payable	-29,423	-49,423	0
Net after income taxes	\$168,269	\$190,734	\$197,692

¹ Beginning in 2007.

² Applicable to 2006 and 2007 only. No charitable deduction is allowed for such transfers.

³ Based on federal law. State or local law may differ.

⁴ Assumes annual contributions are made at the beginning of each year.

IRAs Compared

The calculator below provides a hypothetical illustration of the impact of time and income taxes on various types of IRAs.¹ The calculations assume that any tax savings from deductible contributions are invested in a separate, annually-taxable fund and that all funds are withdrawn in a lump sum at retirement.

Assumptions:

- Desired net annual contribution: \$4,000
- Marginal tax bracket (pre-retirement): 0.00%
- Marginal tax bracket (post-retirement): 0.00%
- Tax-deferred growth rate: 0.00%
- After-tax growth rate: 0.00%
- Number of years until retirement: 0

Item	Traditional Nondeductible IRA	Traditional Deductible IRA	Roth IRA
A. Pre-Retirement			
1. Contributions are made	After-tax	Before-tax	After-tax
2. Gross amount	\$4,000	\$4,000	\$4,000
3. Income taxes payable	\$0	\$0	\$0
4. Net annual contribution to IRA	\$4,000	\$4,000	\$4,000
5. Annual tax savings to taxable account	\$0	\$0	\$0
Total net annual savings	\$4,000	\$4,000	\$4,000
B. At Retirement			
1. Net accumulation in the IRA ²	\$0	\$0	\$0
2. Future value of tax savings	\$0	\$0	\$0
3. Total available before taxes	\$0	\$0	\$0
4. Income taxes payable	\$0	\$0	\$0
Net after income taxes	\$0	\$0	\$0

¹ Based on federal law. State or local law may differ.

² Assumes annual contributions are made at the beginning of each year.

Traditional IRAs

Deadline to Establish and Fund an IRA

An IRA can be established and funded at any time from January 1 of the current year and up to and including the date an individual's income tax return is due (generally, April 15 of the following year), not including extensions.

Can Deduction Be Taken Prior to Investment of the Funds?

Yes! This, in effect, permits an individual to file his return early in the year (e.g., January) and use his or her tax refund to make the actual contribution prior to April 15. Beginning in 2007, refunds of federal income taxes may be directly deposited into an IRA.

Types of Arrangements Permitted

There are currently two types of IRAs.

- **Individual retirement accounts:** These are trusts or custodial accounts with a corporate trustee or custodian.
- **Individual retirement annuities:** These are special annuities issued by an insurance company.



Contribution and Deduction Limits

A wage earner may contribute the lesser of \$4,000¹ or 100% of compensation for the year. If the wage earner is married, an additional \$4,000 may be contributed on behalf of a lesser earning (or nonworking) spouse, using a spousal IRA. This means the family unit may contribute up to a total of \$8,000² as long as family compensation is at least that amount. If certain requirements are met, the amount contributed may also be deducted from gross income on the federal income tax return.

Other Retirement Plans May Reduce or Eliminate Deductions

Taxpayers who participate in an employer's plan may make fully-deductible IRA contributions only if their adjusted gross income (AGI) is below \$83,000 if married filing jointly, \$52,000 if single and \$0 if married filing separately. If AGI exceeds these amounts, the \$8,000 family or \$4,000 individual limit is reduced by a formula that eventually permits no deduction. No IRA deduction is allowed for married couples filing jointly with AGI over \$103,000, single individuals with an AGI over \$62,000 and married couples filing separately with an individual AGI over \$10,000³.

¹ This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$5,000, with adjustments for inflation. If an IRA participant is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

² This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$10,000, with adjustments for inflation.

³ These are 2007 limits. For 2006 the phase-out ranges were (1) MFJ - AGI of \$75,000 - \$85,000; (2) Single - \$50,000 - \$60,000. For taxpayers using the MFS filing status, the phase-out range is \$0 - \$10,000, which does not change.

Continued...

Traditional IRAs

For 2007, a taxpayer who is not an active participant in an employer plan, but whose spouse is, the maximum deductible IRA contribution is phased out if their combined AGI is between \$156,000 and \$166,000.

Employer plans include: regular qualified plans; Keogh plans; Sec. 403(b) tax-sheltered annuity plans; simplified employee pension (SEP) plans; SIMPLE plans; and state, federal and local government plans (except Sec. 457 tax-exempt employer sponsored nonqualified deferred compensation plans).

Individuals with income in excess of the above limits may wish to make contributions to a Roth IRA on a nondeductible basis. Income limits also apply to Roth IRA contributions.

Distributions, Withdrawals and Taxation

- **Typical distribution plans**
 - **Single-sum distribution:** Becomes part of taxable income for that year (less any nondeductible contributions).
 - **Life expectancy:** Each year, participant calculates payout based upon the attained-age life expectancy, as determined by the federal government.
 - **Life annuity:** For individual retirement annuities only, participant/annuitant may elect guaranteed income for life (and the life of a joint annuitant, if desired).
- **Premature distributions:** Withdrawals and distributions prior to age 59½ are subject to a 10% penalty tax, in addition to current income tax, unless one or more of the following apply.¹
 - A distribution is made because of the death or disability of the participant.
 - A distribution is paid as substantially equal periodic payments over the life of the participant, or the joint lives of the participant and a designated beneficiary. The 10% penalty is triggered if the distribution schedule is modified within five years or before attainment of age 59½, if later.
 - The distribution is rolled over into another IRA.
 - The distribution is used to pay for medical expenses in excess of 7.5% of AGI.
 - An IRA distribution is used by an unemployed individual to pay health insurance premiums. (Only applies to certain situations.)
 - The IRA distribution is used to pay for qualified, higher education expenses for the individual, a spouse, a child or a grandchild.
 - For a first-time homebuyer, there is a lifetime exception of \$10,000 from the 10% penalty tax.² The purchaser of the home may be the individual, a spouse, a child, a grandchild, or an ancestor. A first-time homebuyer is someone (or his or her spouse) who had no ownership in a principal residence during the preceding two years prior to the purchase of the new home.
 - A distribution is rolled over to a Health Savings Account (HSA).

¹ Note that not all exceptions to the 10% penalty are listed.

² Based on federal law. State law may vary.

Continued...

Traditional IRAs

- **Required distributions:** Minimum distributions must begin by April 1 of the calendar year following the year in which the participant reaches age 70½. However, if the distribution is received in the year following attainment of age 70½, two distributions are required in that specific year. Thereafter, the minimum distribution must be made by the end of each calendar year. The minimum distributions may be paid using one of two methods.
 - **Over the life expectancy of the participant:** In general, the required minimum distribution is calculated using the IRA participant's attained age and a minimum distribution factor table prescribed by the IRS.¹
 - **Spouse more than 10 years younger:** If the participant's spouse is more than 10 years younger than the participant and the spouse is the IRA's sole designated beneficiary for the entire calendar year, the minimum distribution factor used in calculating the required distribution amount is determined in accordance with the Joint and Last Survivor Table specified in Treas. Reg. 1.401(a)(9)-9, Q&A3. The participant's marital status is determined on January 1 of the calendar year. A 50% excise tax is levied² on amounts that should have been distributed, but were not.
- **Taxation of distributions**
 - **During life:** Distributions are taxable as ordinary income.³
 - **At death:** At the participant's demise, the distributions received by a beneficiary are taxed as ordinary income.³ If the participant dies before payments have begun, distributions must generally be paid out over a five-year period or less, or over the life expectancy of a designated beneficiary, if payments begin by December 31 of the year following the year of the participant's death. If the distributions are paid solely to the surviving spouse, they may be paid out over the life expectancy of the spouse and must begin by the end of the year in which the participant would have attained age 70½.⁴ If the surviving spouse elects to treat the IRA as his or her own, distributions must begin by April 1 of the year following the year in which the surviving spouse attains age 70½. Caution is required in making a QTIP trust the beneficiary of an IRA. For federal estate tax purposes, the value of the IRA is included in the gross taxable estate of the participant. Proper planning is necessary to avoid losing the benefit of the marital deduction.
- **Charitable distribution:** For 2006 and 2007 federal law provides an exclusion from gross income of up to \$100,000 for distributions made from a Roth or Traditional IRA directly to a qualified charitable organization. The IRA owner must be at least age 70½ when the distribution is made. No charitable deduction is allowed for such qualified charitable deductions.
- **Transfers to Health Savings Accounts (HSAs):** Beginning in 2007, federal law allows for a limited, one-time, direct transfer of funds from an IRA to an HSA. If certain requirements are met, any otherwise taxable portion of the distribution is excluded from income and the 10% early distribution penalty will not apply.

¹ See Treas. Reg. Sec. 1.401(a)(9)-5, Q&A4(a).

² Based on federal law. State law will vary.

³ Taxes and penalties do not apply to nondeductible contributions.

⁴ Or, if later, by the end of the calendar year following the year the participant died.

Continued...

Traditional IRAs

Investment Alternatives

- **Banks, savings and loans, credit unions:** Certificates of deposit in Traditional IRAs are generally protected by either the FDIC or the NCUA for amounts up to \$250,000. Fixed and variable rates are available. There may be penalties for early withdrawal.
- **Annuities:** Traditional individual retirement annuities issued by insurance companies can guarantee a fixed monthly income at retirement. Variable annuities do not guarantee a fixed monthly income at retirement.
- **Money market:** Yield fluctuates with the economy. Investor cannot lock in the higher interest rates. It is easy to switch to other investments.
- **Mutual funds:** Capital gains, interest and dividends are tax-deferred in an IRA but are taxed as ordinary income at withdrawal.
- **Zero coupon:** Bonds are bought at deep discount originally. There are no interest payments to worry about reinvesting. Zero coupon bonds are subject to inflation risk and interest rate risk.
- **Stocks and bonds:** A wide variety of investments and risk is possible. Capital gains are taxed as ordinary income at withdrawal. Losses are generally not deductible.
- **Limited partnerships:** Some limited partnerships are especially designed for qualified plans, specifically in the areas of real estate and mortgage pools.

Prohibited Investments or Transactions for IRAs

- **Life insurance:** IRAs cannot include life insurance contracts.
- **Loans to IRA taxpayer:** Self-borrowing disqualifies the IRA and triggers constructive distribution of the entire amount deemed distributed. It becomes currently taxable plus a 10% penalty if the account owner is under age 59½.
- **Collectibles:** Purchases of art works, antiques, metals, gems, stamps, etc., will be treated as a taxable distribution. Coins issued under state law and certain U.S. gold, silver and platinum coins are exceptions. Some kinds of bullion may be purchased.
- **IRA as collateral:** Using the IRA as security for a loan, e.g. buying stock on margin, will trigger a distribution tax.

Other Factors to Consider

- Is the interest rate fixed or variable? If interest rates drop, a fixed rate is better, especially if you can make future contributions at the same fixed rate. If interest rates go up, you may be able to roll the current IRA over to another IRA.
- What is the yield? More frequent compounding will produce a higher return.
- How often can you change investments? What is the charge?
- Federal bankruptcy law protects assets in traditional IRA accounts, up to \$1,000,000. In future years, the \$1,000,000 limit will be indexed for inflation. Funds rolled over from qualified plans are protected without limit.

How a Traditional IRA Works



Account Owner

- Contribution may be tax deductible.¹
- Total annual contribution is limited.²
- Annual contribution limits are coordinated with any Roth IRA.

IRA Account

- May be opened anytime between January 1 of current year until due date of tax return.
- Earnings accumulate tax deferred.
- Account is usually self-directed (participant controls investments).
- A separate spousal IRA may be established for a spouse with little or no earned income.



Early Withdrawal

- A 10% penalty applies if withdrawals are made before age 59½.
- Some exceptions to 10% penalty are available.
- Earnings + deductible contributions are taxed as ordinary income in year received.

Retirement

- Distributions must begin by April 1 of year following year owner reaches age 70½.
- Required minimum distribution rules apply.
- Earnings + deductible contributions are taxed as ordinary income in year received.

Death

- Value of IRA is included in owner's gross estate.
- Proceeds can pass to surviving spouse, with payments made over survivor's lifetime.
- Income and estate taxes can severely reduce IRA funds left to non-spousal beneficiaries.

¹ If an IRA owner (or spouse) is a participant in an employer-sponsored qualified plan, the deductibility of traditional IRA contributions may be limited, based on income level and filing status.

² The maximum annual contribution is the lesser of \$4,000 (\$8,000 for a married couple) or 100% of compensation. For married couples, no more than \$4,000 may be contributed for either spouse. If an IRA owner is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

Roth IRAs

The Roth IRA differs from the traditional IRA in that contributions are never deductible and, if certain requirements are met, account distributions are free of federal income tax.¹

Funding a Roth IRA

Annual contributions: A Roth IRA may be established and funded at any time between January 1 of the current year, up to and including the date an individual's federal income tax return is due, (generally April 15 of the following year), not including extensions. The account must be designated as a Roth IRA at the time it is established.²



Conversion of existing IRA account: An existing, traditional IRA (either an annual contribution IRA or a rollover IRA) may be converted to a Roth IRA. The conversion from the traditional IRA to the Roth IRA is a taxable event. Previously deducted IRA contributions and all earnings are added to the taxpayer's gross income for the year of conversion. Any 10% penalty tax for withdrawals before age 59½ which might apply to converted amounts is waived. However, if a taxpayer withdraws amounts from the Roth IRA within five years of the year of conversion, the 10% penalty tax will apply to those amounts deemed to be part of the conversion.³

To qualify for a conversion, a taxpayer must have an adjusted gross income (AGI) of \$100,000 or less in the year of conversion. The law also prohibits conversion if a taxpayer is using the married filing separate status.⁴ A taxpayer who converts amounts from a traditional IRA to a Roth IRA may reverse the transaction and recharacterize the converted funds. Only one such conversion and recharacterization is permitted during a tax year. If, for example, a taxpayer converts and then unconverts a Roth IRA in 2007, he or she must wait until tax year 2008 before again converting amounts from a traditional IRA to a Roth IRA. The recharacterization of converted amounts must generally be made by the due date for the taxpayer's return, plus any extensions.

Direct rollover from a designated Roth account: Funds may be rolled into a regular Roth IRA from a designated Roth account that is part of a 401(k) or 403(b) plan. Such a rollover is not a taxable event and the filing status and AGI limitations normally applicable to regular Roth IRA contributions do not apply.

Direct rollover from a qualified plan: Beginning in 2008, distributions from qualified retirement plans, IRC Sec. 457 plans, and tax-sheltered annuities may be rolled directly into a Roth IRA. These rollovers will be taxable events, subject to the same requirements as a Roth conversion, e.g. filing status limitations and AGI of \$100,000 or less.

¹ Income tax treatment of Roth IRAs at the state or local level may differ.

² Federal law allows a 401(k) or 403(b) plan sponsor to modify plan provisions to allow participants the option to contribute to a Roth account. Contributions to a Roth 401(k) or Roth 403(b) account are made with after-tax dollars and are subject to the same employee elective deferral limits as the 401(k) or 403(b) plan.

³ The 10% penalty will apply to the extent that converted amounts would have been included in income because of the conversion. See IRC Sec. 408A(d)(3)(F).

⁴ Converted amounts are not included in determining if AGI is \$100,000 or less. The converted amounts are, however, taken into account for all other income tax purposes. Beginning in 2010, the \$100,000 and filing status limitations will no longer apply.

Continued...

Roth IRAs

Type of Arrangements Permitted

There are currently two types of Roth IRAs.

- **Individual retirement accounts:** trusts with a corporate trustee
- **Individual retirement annuities:** special annuities issued by a life insurance company

Contribution Limits

Limits: For 2007, an individual may contribute (but not deduct) the lesser of \$4,000 or 100% of compensation for the year. For a married couple, an additional \$4,000 may be contributed on behalf of a lesser earning (or nonworking) spouse, using a spousal account. A husband and wife may contribute up to a total of \$8,000, as long as their combined compensation is at least that amount.¹ If an IRA owner is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if the spouse is also over 50).

Contribution phase out: For 2007, the maximum contribution to a Roth IRA is phased out for single taxpayers with adjusted gross income between \$99,000 and \$114,000. For married couples filing jointly, the phase-out range is an AGI of \$156,000 to \$166,000. For married individuals filing separately, the phase-out range is an AGI of \$0 to \$10,000.

Other IRAs: The contribution limits for a Roth IRA are coordinated with those of the traditional IRA; a taxpayer may not contribute more than \$4,000 (\$8,000 for a married couple) per year into a single IRA or a combination of traditional and Roth IRAs¹. Excess contributions to a Roth IRA are subject to a 6% excise tax.

Federal refunds: Beginning in 2007, refunds of federal income taxes may be directly deposited into an IRA.

Taxation of Distributions

A distribution from a Roth IRA that is a “qualified” distribution is excluded from gross income and is not subject to federal income tax. A distribution is qualified if it is made after a five-year waiting period² and at least one of the following requirements is met:

- after the taxpayer reaches age 59½; or
- due to the taxpayer’s death; or
- because the taxpayer becomes disabled; or
- to pay for first-time-home-buyer expenses.³

¹ These amounts apply to 2005 – 2007.

² Five years after a contribution is first made, or amounts are converted to, a Roth IRA. Subsequent contributions or conversions do not start a new five-year waiting period. See IRC Sec. 408A(d)(2) (B), as amended by the Internal Revenue Restructuring and Reform Acts of 1998.

³ Limited to \$10,000, which must be used within 120 days of withdrawal. Distribution must be used to acquire or rebuild a first home of the taxpayer, spouse, or any descendent or ancestor of the taxpayer or his or her spouse.

Continued...

Roth IRAs

The **earnings** portion of a “non-qualified” distribution is subject to tax. To determine any taxable distribution, the funds are considered to be withdrawn in a specified order:

- Any withdrawal is considered to come first from nondeductible **contributions**, which are not subject to tax.
- After all contributions have been withdrawn, any **conversion** amounts are considered next. A distribution of converted funds is not included in gross income, but may be subject to the 10% premature distribution penalty if the funds are withdrawn within five years of being converted.
- Once all contributions and conversions have been withdrawn, any remaining funds are deemed to be **earnings**, and, when distributed, are included in gross income.

Premature Distributions

If a **taxable** distribution is received prior to age 59½, a 10% penalty tax is added to the regular income tax due, unless one or more of the following exceptions apply:

- A distribution is made because of the death or disability of the account owner.
- A withdrawal is part of a scheduled series of substantially equal periodic payments.
- A withdrawal is used to pay deductible medical expenses, or is made pursuant to a qualified domestic relations order, e.g., a divorce decree.
- The distribution is used to pay for qualified higher education expenses of the account owner, spouse, child, or grandchild.
- Amounts are withdrawn to pay for first-time homebuyer expenses of up to \$10,000.
- In certain situations, to pay health insurance premiums for unemployed individuals.
- A distribution is transferred to a Health Savings Account (HSA).
- Withdrawals by military reservists called to active duty for more than 179 days, or indefinitely, between September 11, 2001 and December 31, 2007.
- In case of an IRS levy on the account.

Other Differences

There are several other significant differences between the traditional and Roth IRAs:

- **Contributions after age 70½:** Contributions to a Roth IRA may be made even after the taxpayer has reached age 70½, as long as the taxpayer has compensation at least equal to the contribution, subject to the phase out rules.
- **Distribution requirements:** Roth IRAs are not subject to the mandatory distribution rules during the life of the owner (triggered at age 70½), applicable to traditional IRAs.

Continued...

Roth IRAs

Charitable Distributions

For 2006 and 2007 federal law provides an exclusion from gross income of up to \$100,000 for distributions made from a Roth or Traditional IRA directly to a qualified charitable organization. The IRA owner must be at least age 70½ when the distribution is made. No charitable deduction is allowed for such qualified charitable deductions.

Transfers to Health Savings Accounts (HSAs)

Beginning in 2007, federal law allows for a limited, one-time, direct transfer of funds from an IRA to an HSA. If certain requirements are met, any otherwise taxable portion of the distribution is excluded from income and the 10% early distribution penalty will not apply.

Factors Favoring Conversion to a Roth IRA

Factors that favor converting an existing traditional IRA to a Roth IRA include:

- The dollar amount in an existing IRA is relatively small.
- The majority of contributions in an existing IRA consist of nondeductible contributions.
- A taxpayer has at least five years before withdrawals are planned.
- A taxpayer anticipates that the funds in an IRA will not be needed at retirement and would like to continue tax-free growth for as long as possible.
- Sufficient non-IRA funds are available to pay the additional income tax due as a result of the conversion from a traditional IRA to a Roth IRA.
- It is anticipated that a taxpayer's marginal tax bracket during retirement will be the same as, or higher than, the current marginal bracket.

Investment Alternatives

- **Banks, savings and loans, credit unions:** Certificates of deposit in Roth IRAs are generally insured by either the FDIC or the NCUA for amounts up to \$250,000. Fixed and variable rates are available. There may be stiff penalties for early withdrawal.
- **Annuities:** Traditional, fixed individual retirement annuities issued by life insurance companies can guarantee fixed monthly income at retirement and may include a disability-waiver-of-premium provision. Variable annuities do not guarantee a fixed monthly income at retirement.
- **Money market:** Yield fluctuates with the economy. Investor cannot lock in higher interest rates. It is easy to switch to other investments.
- **Mutual funds:** A wide variety of mutual funds with many investment objectives are available.
- **Zero coupon bonds:** Bonds are issued at a deep discount from face value. There are no worries about reinvesting interest payments. Zero coupon bonds are subject to inflation risk and interest rate risk.

Continued...

Roth IRAs

- **Stocks:** A wide variety of investments (and risk) is possible. Losses are generally not deductible.
- **Limited partnerships:** Some limited partnerships are especially designed for qualified plans, specifically in the areas of real estate and mortgage pools.

Prohibited Investments or Transactions

- **Life insurance:** Roth IRAs cannot include life insurance contracts.
- **Loans to IRA taxpayer:** Self-borrowing triggers a constructive distribution of the entire amount in an IRA.
- **Collectibles:** Purchase of art works, antiques, metals, gems, stamps, etc., will be treated as a taxable distribution. Coins issued under state law and certain U.S. gold, silver and platinum coins are exceptions. Certain kinds of bullion may be purchased.

Other Factors to Consider

- Is the interest rate fixed or variable? If interest rates drop, a fixed rate may be better, especially if you can make future contributions at the same fixed rate. If interest rates go up, you may be able to roll the account to another Roth IRA.
- What is the yield? More frequent compounding will produce a higher return.
- How often can you change investments? Is there a charge?
- Federal bankruptcy law protects assets in Roth IRA accounts, up to \$1,000,000. In future years, the \$1,000,000 limit will be indexed for inflation. Funds rolled over from qualified plans are protected without limit.

How a Roth IRA Works



Account Owner

- Contributions are not tax deductible.
- Total annual contribution is limited.¹
- Annual contribution limits are coordinated with any traditional IRA.

Roth IRA Account

- May be opened anytime between January 1 of the current year and the due date of the tax return.
- Traditional IRA can be converted to a Roth IRA².
- Earnings accumulate tax-deferred.
- Account is usually self-directed (owner controls investments).
- A separate spousal Roth IRA may be established for a spouse with little or no earnings.

Qualified Distributions

- Qualified distributions are tax-free if a five-year holding period is met and one of the following applies - The owner is over 59½, dies, becomes disabled or the distribution is for up to \$10,000 of qualified first-time homebuyer expenses.

Retirement

- Assuming compensation, contributions may continue to any age.
- No mandatory age for starting withdrawals.
- No minimum distributions required while owner is alive.
- Qualified distributions are received free of federal income tax.

Death

- Value of Roth IRA is included in owner's federal gross estate.
- If five-year holding period is met, beneficiaries receive funds free of federal income tax.
- A surviving spouse may choose to treat an inherited Roth IRA as his or her own.

¹ The maximum annual contribution is the lesser of \$4,000 (\$8,000 for a married couple) or 100% of compensation. For married couples, no more than \$4,000 may be contributed for either spouse. For a Roth IRA owner age 50 or older, an additional \$1,000 may be contributed (\$2,000 if the spouse is also age 50). The maximum annual contribution to a Roth IRA is phased out for individuals with incomes in excess of certain limits.

² The conversion is a taxable event. Previously deducted contributions and all earnings are added to the taxpayer's gross income in the year of conversion. Taxpayers with a modified AGI greater than \$100,000 may not convert. Beginning in 2010, the \$100,000 income limit will no longer apply.

Roth 401(k) and Roth 403(b)

Qualified Roth Contribution Program

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) contained a new code section, IRC Sec. 402A, effective January 1, 2006, which allows an employer to add a “qualified Roth contribution program” to a regular 401(k) or 403(b) qualified retirement plan.¹ These plans are popularly known as a “Roth 401(k)” plans.

Qualified Roth Contribution Program

Under a regular 401(k) or 403(b) plan, a participant chooses to defer a portion of his or her compensation into the retirement plan. Such “elective deferrals” are made on a **pre-tax** basis, any account growth is tax-deferred, and withdrawals are taxed as ordinary income.

In a qualified Roth contribution program, a participant can choose to have all or part of his elective deferrals made to a separate, designated Roth account. Such “designated Roth contributions” are made on an **after-tax** basis. Growth in the designated Roth account is tax-deferred and qualified distributions are excluded from gross income. Other points:

- Separate accounting and recordkeeping are required for the deferrals under the 401(k) or 403(b) portions of the plan and for those made to the designated Roth account. Assets may not be transferred between a regular 401(k) or 403(b) plan and a designated Roth account.
- Individuals whose adjusted gross income exceeds certain limits may not contribute to a regular Roth IRA. There are no income limits applicable to a designated Roth account.
- For 401(k) plans, contributions to a designated Roth account are elective deferrals for purposes of the Actual Deferral Percentage (ADP) test.

Contributions

A number of rules apply to contributions to a qualified Roth contribution program:

- **Dollar limitation:** For 2007, a maximum of \$15,500 may be contributed. Those who are age 50 and older may make additional contributions of \$5,000. A participant may choose to place all of his or her contributions in the regular 401(k) or 403(b) portion of the plan, all in the designated Roth account, or split the deferrals between the two.
- **Employer contributions:** Employer contributions will be credited to the regular 401(k) or 403(b) portion of the plan; they may not be designated as Roth contributions.
- **Excess contributions:** Excess deferrals to a qualified Roth contribution program must be distributed to the participant no later than April 15 of the year following the year in which the excess deferral was made. Otherwise, the excess deferral will be taxed twice, once in the year of deferral and a second time the year a corrective distribution is made.

¹ The discussion here concerns federal income tax law. State or local income tax law may differ.

Continued...

Roth 401(k) and Roth 403(b)

Qualified Roth Contribution Program

Distributions

A distribution from a designated Roth account will be excluded from income if it is made at least five years after a contribution to such an account was first made and at least one of the following applies:

1. The participant reaches age 59½;
2. The participant dies;
3. The participant becomes disabled.

Such distributions are known as “qualified” distributions. Other points:

- **Nonqualified distributions:** If a distribution does not meet the above requirements, it is termed a “nonqualified” distribution. Such distributions are subject to federal income tax, including a 10% premature distribution penalty if the distributee is under age 59½, in the year distributed. Such distributions are taxed under the annuity rules of IRC Sec. 72; any part of a distribution that is attributable to earnings is includable in income; any portion attributable to the original investment (basis) is recovered tax-free. This contrasts sharply with the taxation of nonqualified distributions from a regular Roth IRA account. Nonqualified distributions from a regular Roth IRA are taxed following pre-defined ordering rules under which basis is recovered first, followed by earnings.
- **First-time homebuyer expenses:** In a regular Roth IRA, a qualified distribution may be made to pay for first-time homebuyer expenses. This provision **does not apply** to distributions from a designated Roth account.
- **Rollovers:** A distribution from a designated Roth account may be rolled over into either a Roth IRA or another designated Roth account.
- **Required minimum distributions:** Generally, amounts in a designated Roth account are subject to the required minimum distribution rules applicable to plan participants when they reach age 70½. However, a participant can avoid the mandated distributions by rolling over amounts in the designated Roth account into a regular Roth IRA.

Which Account To Choose?

The decision as to which type of account should be used will generally be made on factors such as the length of time until retirement (or until the funds are needed), the amount of money available to contribute each year, the participant’s current tax situation, and the anticipated marginal tax rate in retirement. An important issue to keep in mind is the overall, lifetime tax burden.

- **Regular 401(k) or 403(b):** Generally, individuals with a relatively short period of time until retirement, or who expect that their marginal tax rate will be lower in retirement, will benefit more from the regular 401(k) or 403(b) plan.

Continued...

Roth 401(k) and Roth 403(b)

Qualified Roth Contribution Program

- **Designated Roth account:** Younger individuals with more years until retirement and those who anticipate that their marginal tax rate will rise in retirement will generally benefit more from a designated Roth account. The fact that contributions to a designated Roth account are after-tax may cause current cash-flow problems for some individuals. Higher income participants may find that taxable income will be higher with a designated Roth account than with a regular 401(k) or 403(b) plan, potentially reducing tax breaks such as the child tax credit or AMT exemption.
- **Both:** Some individuals may choose to contribute to both types of plan, to provide flexibility in retirement.

Seek Professional Guidance

Because of the complexities involved, the advice and counsel of professional financial advisors is strongly recommended.

Deductible IRA Contributions for Traditional IRAs

The annual amount that an individual can contribute to a traditional IRA and then deduct on his or her income tax return cannot exceed the lesser of \$4,000¹ or total compensation for that year. For a married couple filing a joint return, where only one spouse is employed (or where one spouse earns less than \$4,000), the annual contribution is limited to the lesser of \$8,000² (a maximum of \$4,000 each to separate accounts) or their combined annual compensation. The contributions on behalf of the non-employed (or lesser earning) spouse are made to an arrangement called a spousal IRA.³

The \$4,000/\$8,000 limits assume no contributions to a Roth IRA. The contribution limits for both a traditional IRA and a Roth IRA are coordinated: a taxpayer may not contribute more than \$4,000 (\$8,000 spousal) per year into a single IRA or combination of IRAs. Excess contributions are subject to a 6% excise tax.

The maximum limit on the amount that may be deducted is restricted, however, if the individual (or spouse) is a participant in an employer-sponsored retirement plan. If this is the case, and depending on the level of modified adjusted gross income (MAGI), a deduction may be allowed for all, none or only a portion of an IRA contribution.

The chart below shows the traditional IRA contribution phase-out ranges for tax year 2007.

Status	No Participation in a Company Retirement Plan	If Covered by a Company Retirement Plan ⁴	
		MAGI	IRA Deduction
Single	Up to \$4,000 is deductible.	Up to \$52,000	\$4,000
		\$52,000 - \$62,000	Phased out
		Over \$62,000	None
Married filing joint	Up to \$4,000 for each is deductible, including spousal IRAs.	Up to \$83,000	\$4,000 (\$8,000 spousal)
		\$83,000 - \$103,000	Phased out
		Over \$103,000	None
Married filing separate	Up to \$4,000 for each is deductible, if both spouses are employed.	Up to \$10,000	Phased out
		Over \$10,000	None

¹ This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$5,000, with adjustments for inflation.

² This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$10,000, with adjustments for inflation.

³ If an IRA owner is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

⁴ A taxpayer will not be considered an active participant in an employer-sponsored retirement plan merely because the taxpayer's spouse is an active participant. However, in this situation, the taxpayer's deductible IRA contribution will be phased out for couples with an AGI of \$156,000 - \$166,000.

Continued...

Deductible IRA Contributions for Traditional IRAs

Other Considerations

- Company retirement plans include pension plans, profit sharing plans, 401(k), 403(b) plans, SEP-IRAs, Keogh plans, and SIMPLE plans.
- Generally, compensation includes wages, salaries, professional fees, net self-employment income and other amounts received for performing personal services.
- Compensation also includes alimony received by a divorced spouse.

Calculating the Maximum Deductible Amount – Single Or MFS

For 2007, the following steps may be used to calculate the deductible portion of a contribution to a traditional IRA for a single individual or a married individual using the married filing separately filing status:¹

1. Modified adjusted gross income (MAGI):² \$ _____
2. Applicable dollar amount:³ (_____)
3. Line 1 minus Line 2: _____
4. Deduction: _____
 - a. If line 3 is greater than \$10,000, no deduction allowed.
 - b. If line 3 is between \$0 and \$10,000, subtract line 3 from \$10,000.
5. Multiplication factor: .40 (.50 if age 50 or greater) _____
6. Multiply line 4 x line 5 _____
7. Round line 6 to next highest \$10 _____
8. Your compensation for the year: _____
9. Contributions you plan to make _____
(Do not enter more than \$4,000 [\$5,000 if age 50 or older])
10. Maximum deductible IRA amount:⁴ _____
(Compare the amounts on Lines 7, 8, and 9, and enter the smallest amount.)

¹ Married couples where both spouses contribute to an IRA should compute each deduction separately. If an individual receives social security benefits in the same year that a contribution is made to a traditional IRA, a different calculation is involved. See IRS Publication 590, Individual Retirement Arrangements (IRAs) for details.

² MAGI = adjusted gross income increased by: (1) student loan interest deduction; (2) tuition and fees deduction; (3) foreign earned income or housing exclusion; (4) foreign housing deduction; (5) excluded qualified savings bond interest; and (6) excluded employer-paid adoption expenses.

³ The applicable dollar amount varies with filing status. For 2007 these amounts are: Single and Head of Household - \$52,000; MFS - \$0.

⁴ If the deductible portion of the IRA is between \$1 and \$200, round up to \$200. IRC Sec. 219(g)

Continued...

Deductible IRA Contributions for Traditional IRAs

Calculating the Maximum Deductible Amount – Married Filing Jointly

For 2007, the following steps may be used to calculate the deductible portion of a contribution to a traditional IRA for a married individual using the married filing jointly filing status:¹

1. Modified adjusted gross income (MAGI):² \$ _____
2. Applicable dollar amount:³ (\$83,000)
3. Line 1 minus Line 2: _____
4. Deduction: _____
 - a. If line 3 is greater than \$20,000, no deduction allowed.
 - b. If line 3 is between \$0 and \$20,000, subtract line 3 from \$20,000.
5. Multiplication factor: .20 (.25 if age 50 or greater) _____
6. Multiply line 4 x line 5 _____
7. Round line 6 to next highest \$10 _____
8. Your compensation for the year: _____
9. Contributions you plan to make _____
(Do not enter more than \$4,000 [\$5,000 if age 50 or older])
10. Maximum deductible IRA amount:⁴ _____
(Compare the amounts on Lines 7, 8, and 9, and enter the smallest amount.)

¹ Married couples where both spouses contribute to an IRA should compute each deduction separately. If an individual receives social security benefits in the same year that a contribution is made to a traditional IRA, a different calculation is involved. See IRS Publication 590, Individual Retirement Arrangements (IRAs) for details.

² MAGI = adjusted gross income increased by: (1) student loan interest deduction; (2) tuition and fees deduction; (3) foreign earned income or housing exclusion; (4) foreign housing deduction; (5) excluded qualified savings bond interest; and (6) excluded employer-paid adoption expenses.

³ The value for 2007. This amount varies with filing status and will change each year.

⁴ If the deductible portion of the IRA is between \$1 and \$200, round up to \$200. IRC Sec. 219(g)

Tax-Deferred Growth in an IRA

Traditional IRA

The chart below illustrates the advantage of tax-deferred growth in a fully-deductible IRA, compared with an alternative in which both the annual contribution and annual growth are taxable each year. The results shown in the chart are hypothetical and simplified to facilitate understanding.

Assumptions:

Annual¹ contribution: \$4,000²

Annual return: 6%³

Combined state and federal marginal income tax bracket: 30%

Years Until Withdrawal of Funds	Tax-Deferred		Currently Taxable \$2,800 Annual Contribution Invested at an Equivalent After-Tax Rate of 4.20%	Benefit Due to Tax-Deferral
	IRA Balance Assuming a \$4,000 Annual Deductible Contribution	After-Tax Amount ⁴ If Withdrawn from the IRA at a 30% Tax Rate		
5	\$22,548	\$15,784	\$15,226	\$557
10	52,723	36,906	33,931	2,976
15	93,104	65,173	56,907	8,266
20	147,142	103,000	85,130	17,869
25	219,458	153,621	119,800	33,820
30	316,233	221,363	162,389	58,974
35	445,739	312,017	214,704	97,313
40	619,048	433,334	278,968	154,365

Note: If the tax bracket at retirement is lower, the tax savings would be even greater.

There is a 10% penalty tax on withdrawals from an IRA before age 59½, unless for disability or death, or if the distribution is paid as an annuity over the life of the IRA owner or the joint lives of the IRA owner and a designated beneficiary, or the distribution is rolled over to another IRA.⁵

¹ Assumes contributions are made at the end of each year.

² This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$5,000, with adjustments for inflation. If an IRA participant is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

³ The rates of return used in this illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario presented.

⁴ Taxes are due when the funds are distributed from the IRA.

⁵ The 10% penalty will not be imposed if distributions are used to pay medical expenses in excess of 7.5% of adjusted gross income, or, in certain cases, to pay for health insurance premiums for unemployed individuals. Further, the 10% penalty will not be imposed if distributions are used to pay for qualified higher education expenses, or for first time homebuyer expenses. Certain withdrawals by qualified military reservists and qualified public safety officials also avoid the penalty.

Tax-Deferred Growth in an IRA

Traditional IRA

The chart below illustrates the advantage of tax-deferred growth in a fully-deductible IRA, compared with an alternative in which both the annual contribution and annual growth are taxable each year. The results shown in the chart are hypothetical and simplified to facilitate understanding.

Assumptions:

Annual contribution:¹ \$4,000

Annual return:² 0.00%

Combined state and federal marginal income tax bracket: 0.00%

Years Until Withdrawal of Funds	Tax Deferred		Currently Taxable	Benefit Due To Tax Deferral
	IRA Balance Assuming a \$4,000 Annual Deductible Contribution	After-tax Amount ³ if Withdrawn from the IRA at a 0.00% Tax Rate	\$4,000 Annual Contribution Invested at an Equivalent After-tax Rate of 0.00%	
5	\$20,000	\$20,000	\$20,000	\$0
10	\$40,000	\$40,000	\$40,000	\$0
15	\$60,000	\$60,000	\$60,000	\$0
20	\$80,000	\$80,000	\$80,000	\$0
25	\$ 100,000	\$ 100,000	\$ 100,000	\$0
30	\$ 120,000	\$ 120,000	\$ 120,000	\$0
35	\$ 140,000	\$ 140,000	\$ 140,000	\$0
40	\$ 160,000	\$ 160,000	\$ 160,000	\$0

Note: If the tax bracket at retirement is lower, the tax savings would be even greater.

There is a 10% penalty tax on withdrawals from an IRA before age 59½, unless for disability or death, or if the distribution is paid as an annuity over the life of the IRA owner or the joint lives of the IRA owner and a designated beneficiary, or the distribution is rolled over to another IRA.⁴

¹ Assumes contributions are made at the end of each year.

² The rates of return used in this illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario presented.

³ Taxes are due when the funds are distributed from the IRA.

⁴ The 10% penalty will not be imposed if distributions are used to pay medical expenses in excess of 7.5% of adjusted gross income, or, in certain cases, to pay for health insurance premiums for unemployed individuals. Further, the 10% penalty will not be imposed if distributions are used to pay for qualified higher education expenses, or for first time homebuyer expenses. Certain withdrawals by qualified military reservists and qualified public safety officials also avoid the penalty.

Tax-Deferred Growth in an IRA

Traditional IRA

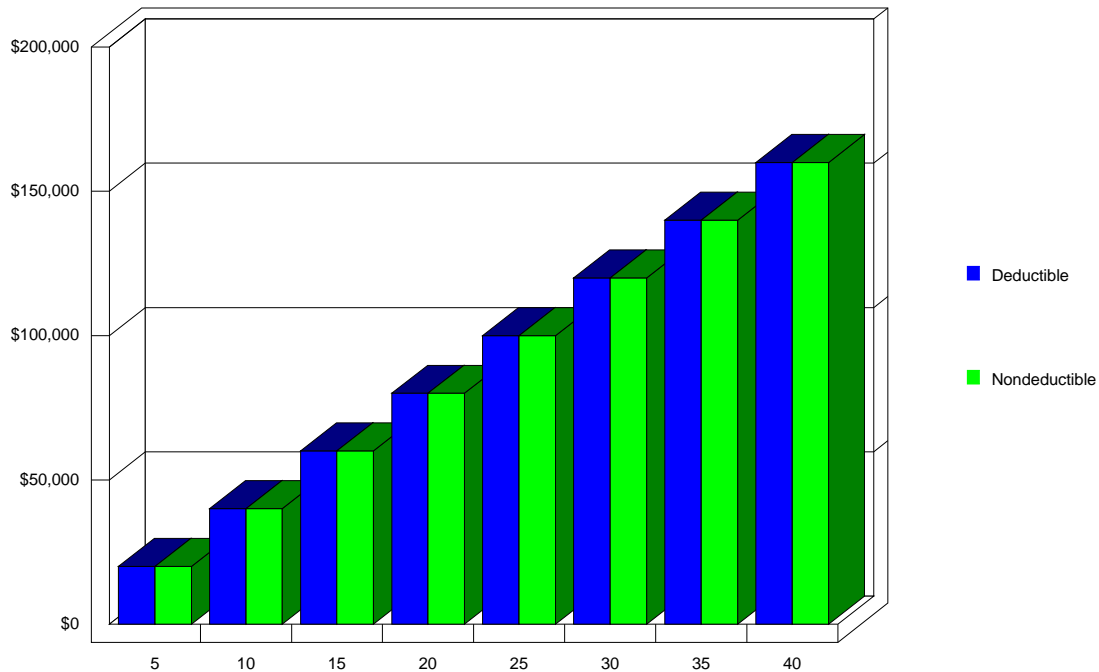
Assumptions:

Annual contribution:¹ \$4,000

Annual return:² 0.00%

Combined state and federal marginal income tax bracket: 0.00%

Years until Withdrawal of Funds	Tax Deferred		Currently Taxable \$4,000 Annual Contribution Invested at an Equivalent After-tax Rate of 0.00%	Benefit Due to Tax Deferral
	IRA Balance Assuming a \$4,000 Annual Deductible Contribution	After-tax Amount ³ if Withdrawn from the IRA at a 0.00% Tax Rate		
5	\$20,000	\$20,000	\$20,000	\$0
10	\$40,000	\$40,000	\$40,000	\$0
15	\$60,000	\$60,000	\$60,000	\$0
20	\$80,000	\$80,000	\$80,000	\$0
25	\$100,000	\$100,000	\$100,000	\$0
30	\$120,000	\$120,000	\$120,000	\$0
35	\$140,000	\$140,000	\$140,000	\$0
40	\$160,000	\$160,000	\$160,000	\$0



¹ Assumes contributions are made at the end of each year.

² The rates of return used in this illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario presented.

³ Taxes are due when the funds are distributed from the IRA.

Does It Matter When You Contribute to an IRA?

When contributions to an IRA are consistently made at the beginning of the year rather than at the end, the funds have an extra 12 months in which to grow.

Over a period of years there is a substantial difference in the amount accumulated.

\$4,000¹ per Year Accumulated at Various Rates of Return²

Number of Years from the Beginning of the First Year	5% Return		Increase in Amount Accumulated
	Contribution Made Jan. 1	Contribution Made Dec. 31	
5	\$23,208	\$22,103	\$1,105
10	52,827	50,312	2,516
15	90,630	86,314	4,316
20	138,877	132,264	6,613
25	200,454	190,908	9,545
30	279,043	265,755	13,288
35	379,345	361,281	18,064
40	507,359	483,199	24,160

Number of Years from the Beginning of the First Year	8% Return		Increase in Amount Accumulated
	Contribution Made Jan. 1	Contribution Made Dec. 31	
5	\$25,344	\$23,466	\$1,877
10	62,582	57,946	4,636
15	117,297	108,608	8,689
20	197,692	183,048	14,644
25	315,818	292,424	23,394
30	489,383	453,133	36,251
35	744,409	689,267	55,141
40	1,119,124	1,036,226	82,898

The overall effect is that you have one full extra year of growth when you make the contribution at the beginning of the tax year.

¹ This amount applies to 2005 – 2007. In 2008 and thereafter it will be \$5,000, with adjustments for inflation. If an IRA participant is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

² Assumes compounding annually. The rates of return used in this illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario presented.

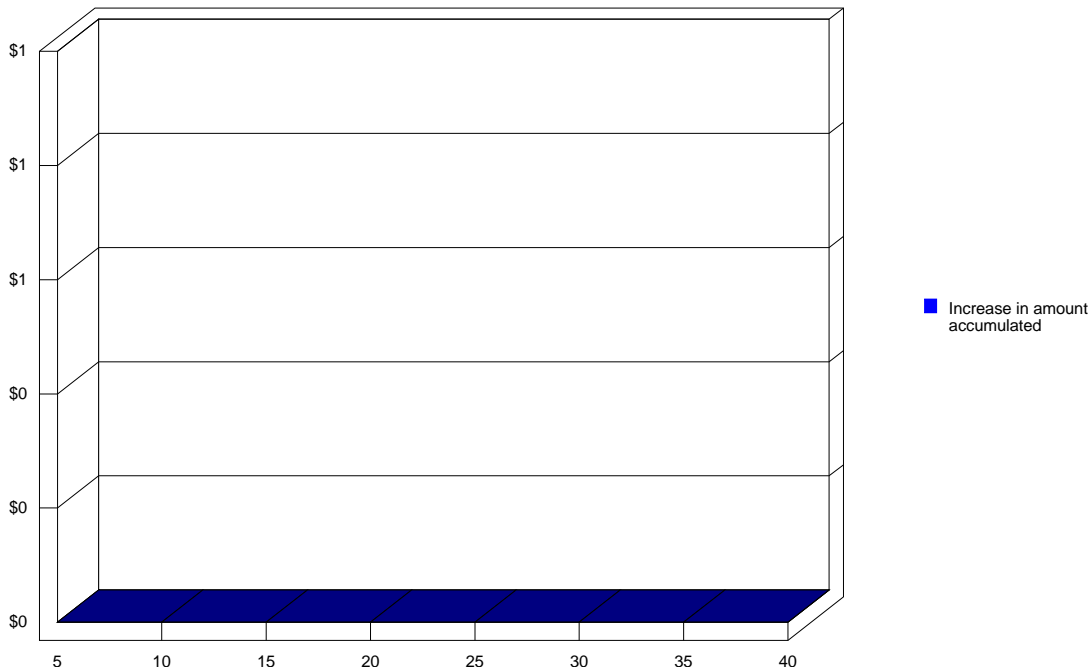
Does It Matter When You Contribute to an IRA?¹

When contributions to an IRA are consistently made at the beginning of the year rather than at the end, the funds have an extra 12 months in which to grow. Over a period of years there is a substantial difference in the amount accumulated.

Assumptions:

Annual contribution: 4,000
 Annual growth rate:² 0.00%

Number of Years from the Beginning of the First Year	Contribution Made Jan. 1	Contribution Made Dec. 31	Increase in Amount Accumulated
5	\$20,000	\$20,000	\$0
10	\$40,000	\$40,000	\$0
15	\$60,000	\$60,000	\$0
20	\$80,000	\$80,000	\$0
25	\$ 100,000	\$ 100,000	\$0
30	\$ 120,000	\$ 120,000	\$0
35	\$ 140,000	\$ 140,000	\$0
40	\$ 160,000	\$ 160,000	\$0



¹ Results shown are hypothetical and simplified to facilitate understanding.

² Growth is compounded annually. The rates of return used in this illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario presented.