

THE NEW LOOK OF IRAs AND ESAs

	Traditional IRA	Roth IRA	Coverdell ESA (Formerly Education IRA)																					
Qualifications	Must have earned income and not have reached age 70 1/2 by the end of the year.	Must have earned income. There are no age restrictions.	The designated beneficiary must be an individual under the age of 18. Beginning in 2002, the age 18 limitation will not apply to any designated beneficiary with special needs.																					
Maximum Contributions	<p><u>Taxable years beginning</u></p> <p>In 2002 through 2004 . . . \$3,000</p> <p>In 2005 through 2007 . . . \$4,000</p> <p>In 2008 and after \$5,000*</p>	<p><u>Taxable years beginning</u></p> <p>In 2002 through 2004 . . . \$3,000</p> <p>In 2005 through 2007 . . . \$4,000</p> <p>In 2008 and after \$5,000*</p>	<p><u>Taxable years beginning</u></p> <p>In 2002 and after \$2,000 per beneficiary</p> <p>Contributions do not count against the limits for IRAs</p>																					
Tax Status of Earnings	Tax-deferred until withdrawal	Not taxed. Earnings grow tax-free.	Not taxed. Earnings grow tax-free.																					
Contribution Restrictions	<p>Yes, if active participant in employer retirement plan.</p> <p>CONTRIBUTION PHASEOUTS</p> <table border="1"> <thead> <tr> <th></th> <th>Singles</th> <th>Married Couples</th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>\$34,000-\$44,000</td> <td>\$54,000-\$64,000</td> </tr> <tr> <td>2003</td> <td>\$40,000-\$50,000</td> <td>\$60,000-\$70,000</td> </tr> <tr> <td>2004</td> <td>\$45,000-\$55,000</td> <td>\$65,000-\$75,000</td> </tr> <tr> <td>2005</td> <td>\$50,000-\$60,000</td> <td>\$70,000-\$80,000</td> </tr> <tr> <td>2006</td> <td>same as 2005</td> <td>\$75,000-\$85,000</td> </tr> <tr> <td>2007</td> <td>same as 2005</td> <td>\$80,000-\$100,000</td> </tr> </tbody> </table>		Singles	Married Couples	2002	\$34,000-\$44,000	\$54,000-\$64,000	2003	\$40,000-\$50,000	\$60,000-\$70,000	2004	\$45,000-\$55,000	\$65,000-\$75,000	2005	\$50,000-\$60,000	\$70,000-\$80,000	2006	same as 2005	\$75,000-\$85,000	2007	same as 2005	\$80,000-\$100,000	<p>Yes, contributions phaseout between \$95,000-\$110,000 for singles and \$150,000-\$160,000 for married couples.</p>	<p>Yes, contributions phaseout between \$95,000-\$110,000 for singles and \$150,000-\$160,000 for married couples. For tax years beginning 2002, \$190,000-\$220,000 for married couples.</p>
	Singles	Married Couples																						
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Tax Deduction	Yes. Contributions up to the limit are fully tax deductible if you are not an active participant in a retirement plan. Otherwise phaseout rules apply.	No.	No.																					
Penalties for Early Withdrawal	<p>None if:</p> <ul style="list-style-type: none"> • Over 59 1/2 • Death or disability • Qualified medical expenses • Certain health insurance • Qualified college expenses • 1st time home purchase (up to \$10,000) • Due to IRS levy 	<p>None if:</p> <ul style="list-style-type: none"> • Over 59 1/2 • Death or disability • Qualified medical expenses • Certain health insurance • Qualified college expenses • 1st time home purchase (up to \$10,000) • Due to IRS levy 	<p>None if:</p> <ul style="list-style-type: none"> • For payment of qualified education expenses 																					
Required Distributions	Must begin by April following year participant turns 70 1/2.	Only after death of the participant.	Must be complete 30 days after beneficiary reaches age 30 or dies.																					
Contributions After Age 70 1/2	Not allowed.	Allowed.	Allowed.																					

Individual Retirement Accounts

Tax Law Changes make IRA's and Education Accounts more attractive than ever. Here's how:

Individual Retirement Accounts: Better Than Ever!

An Individual Retirement Account (IRA) is an excellent tool for retirement savings. Unlike most investments, depending on the type of IRA you choose, contributions may be tax deductible and will grow either tax-deferred or tax-free.

A Coverdell Education Savings Account (ESA), formerly Education IRA, is a great way for parents, grandparents and others to help meet the rising costs of a student's education.

Recent tax law changes have made IRAs and ESAs even better.

TRADITIONAL IRA

The annual contribution limit increases to \$3,000 in 2002, \$4,000 in 2005 and \$5,000 in 2008. After 2008, the contribution limit will be adjusted annually for inflation in \$500 increments. The annual limit applies to any combination of IRA plans other than the ESA. Contributions are fully tax deductible if you are not an active participant in an employer retirement plan. Otherwise, phase-out rules apply. Investments grow on a tax-deferred basis. Earnings are taxed only upon withdrawal.

ROTH IRA

As long as you have earned income, you can establish and contribute to a Roth IRA even after age 70 1/2. While contributions are not tax deductible, contributions and earnings can be withdrawn tax-free, and unlike traditional IRAs, you are not required to begin taking required minimum distributions after reaching age 70 1/2. By converting your traditional IRA to a Roth IRA, you can enjoy tax-free withdrawals. However, the amount you convert is subject to income tax now.

EDUCATION SAVINGS ACCOUNT

For taxable years beginning in 2002, the annual contribution amount has been increased from \$500 per beneficiary to \$2,000 per beneficiary.

While there is no tax deduction for amounts contributed to an ESA, earnings grow tax-free. And your ESA can be used to pay qualified elementary school and secondary school expenses as well as those for higher education.

Catch-up contributions—For taxable years beginning in 2002, individuals who have reached age 50 by the

end of the year will be able to make additional catch-up contributions of \$500 per year to their traditional or Roth IRA. For taxable years beginning in 2006, the additional catch-up amount increases to \$1,000.

Contact your credit union today to learn more about today's IRA!

