



Traditional IRA Q & As

Q. What is a traditional IRA?

A. A traditional IRA is a type of retirement plan that has been in existence since 1975. Traditional IRAs offer tax-deferred earnings and the possibility for tax-deductible contributions. These tax advantages make the traditional IRA a powerful tool in creating a balanced, long-term savings plan.

Q. How does a traditional IRA work?

A. You can contribute to a traditional IRA if you earn compensation and you will not reach age 70 1/2 by the end of the year. If you file a joint tax return, you can treat your spouse's compensation as your own (except your combined contributions cannot exceed your combined compensation or contribution limit, whichever is less). All earnings in a traditional IRA are not taxed until they are withdrawn. The ability to defer taxes on the earnings, and to withdraw in a year when you may be in a lower tax bracket, can mean more after-tax dollars for your retirement.

Q. How much can I contribute to a traditional IRA?

A. If you meet the eligibility tests described above and you are under age 50, you can contribute up to \$4,000 for 2006 and 2007. In 2008, the annual contribution limit is \$5,000. For owners age 50 and older, your limits increase to \$5,000 for 2006 and 2007 and \$6,000 for 2008.

Q. Can I still contribute to a traditional IRA if I participate in an employer-sponsored retirement plan?

A. Yes, your participation in an employer-sponsored retirement plan will not affect your ability to contribute to a traditional IRA (assuming age and compensation requirements are met). However, higher-income earners will lose their ability to deduct their traditional IRA contributions if participating in an employer-sponsored plan.

Q. If I already have a Roth IRA, can I have a traditional IRA, too?

A. Yes, you can. However, the limits on annual contributions described on the previous page apply to any combination of traditional and Roth IRA contributions that you make for the year.

This article is not intended as tax advice. Contact a tax professional.

Q. What about income taxes when I withdraw from my traditional IRA?

A. You will owe income taxes when you withdraw from your traditional IRA. However, if you make nondeductible contributions to a traditional IRA, a portion of each withdrawal will be treated as the nontaxable return of these contributions.

Q. If I make an early withdrawal from my traditional IRA before age 59 1/2, do I pay a penalty?

A. In general, you must pay a ten percent tax on early distributions or withdrawals before age 59 1/2. But the early distribution tax does not apply in the following situations:

- a) Amount is rolled over or directly transferred to another traditional IRA
- b) Amount is properly converted to a Roth IRA
- c) Withdrawal of an excess contribution before the tax return is due
- d) Withdrawal of an excess contribution after the filing deadline if certain conditions are met
- e) Payment is made to your beneficiaries after your death
- f) Withdrawal of up to \$10,000 is for first-time home purchase
- g) Amount is used to pay for qualified postsecondary education expenses
- h) Amount is used to pay for medical expenses in excess of 7.5% of adjusted gross income (AGI)
- i) Amount is for pre-59 1/2 periodic payments
- j) Distribution is to an owner who is disabled (as defined by the IRS code)
- k) Distribution is for medical insurance premiums during unemployment that lasts 12 weeks or longer

Q. When must I begin taking distributions from my traditional IRA?

A. You must begin taking required minimum distributions from your traditional IRA at age 70 1/2. The minimum distributions each year will be computed using an IRS formula. You are allowed to delay the first year's payment until April 1 of the following year, but you will receive two years' worth of payments in your 71 1/2 year if you choose to delay.

Q. Can I move funds from a qualified retirement plan to a traditional IRA?

A. If you are entitled to receive an eligible rollover distribution from an employer's plan, you can continue deferring taxes by moving the money into a traditional IRA. The best way to do this is to inform the plan administrator that you want the funds moved directly to your traditional IRA in a direct rollover. The plan administrator will inform you before making an eligible rollover distribution.

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Q. Can I move money from a traditional IRA to a Roth IRA?

A. You can move money from your traditional IRA to a Roth IRA if your adjusted gross income for the year is \$100,000 or less, and you are either single, or married and filing a joint tax return. In the year you convert, you will have to pay federal income taxes on the amount that you move, except the portion that is treated as the return of your traditional IRA basis. You may also be subject to state income taxes.

Q. What happens to my traditional IRA after my death?

A. You may designate one or more beneficiaries to receive your IRA after your death. If your spouse is your beneficiary, he or she may directly transfer your traditional IRA to his or her own IRA tax-free. In addition, all beneficiaries have the option of taking a lump-sum payment or periodic payments over a number of years. Any tax-deferred money in your traditional IRA at the time of death will be taxed when it is distributed to your beneficiaries.

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