

# State Department Federal Credit Union

## Topics of Interest

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### IRAs Explained

An Individual Retirement Account (IRA) is a plan that allows a person to make contributions each year if they meet the contribution requirements. If you are age 50 or older, you can contribute even more to your IRA.

Anyone can contribute to a traditional IRA if he/she has earned income for the year at least equal to the amount of the contribution and are under the age of 70 ½. There is no age limit for contributing to a Roth IRA provided the earned income condition is met. The maximum contribution for 2005 for persons under 50 years old is \$4000 and will rise to \$5000 by 2008. Those who reached 50 years of age by the end of 2002 can make additional "catch up" contributions of \$500 through 2005 and \$1000 for 2006 thereafter.

### Annual Contribution Limits for IRAs per Individual

- Tax year 2005, \$4000 for those under 50 and \$4500 for those 50 and over
- Tax years 2006 - 2007, \$4000 for those under 50 and \$5000 for those 50 and over
- Tax year 2008, \$5000 for those under 50 and \$6000 for those 50 and over

Married couples can each contribute to an IRA even if only one had an earned income for the year if the working spouse earns enough income to cover the IRA contributions for both.

All accumulated interest, dividends, and capital gains on a traditional IRA are tax-deferred until the money is withdrawn. All accumulated interest, dividends, and capital gains on a Roth IRA are tax-free if you meet certain requirements.

### Traditional IRA

A traditional IRA is primarily an individual savings plan. Contributions are made up to a specified limit with the contribution tax deductible. Money invested and earned in a traditional IRA are subject to income taxes at the time of withdrawal. Withdrawals can be made without penalty once you reach the age of 59 1/2 years of age and you must begin withdrawing from your account when you reach the age of 70 1/2.

A traditional IRA must be set up with an IRS approved institution such as banks, some credit unions, brokerages, and so on. A traditional IRA can be established at anytime during the year but contributions for a tax year must be made before

the owner's tax filing deadline. For more information on setting up a traditional IRA, you should contact your accountant, financial institution, or broker.

### **Roth IRA**

A Roth IRA is also primarily an individual savings plan. Contributions can be made up to a specified limit but are non-deductible on your tax form. Withdrawals are tax free within certain limitations. Withdrawals can be made without penalty once you reach the age of 59 ½ provided the funds have been in the account for 5 years. You can continue contributing to a Roth IRA even after you reach the age of 70 ½.

A Roth IRA must be set up with an IRS approved institution such as banks, some credit unions, brokerages, and so on. When you set up a Roth IRA, you will receive the IRA statement disclosure statement and the IRA adoption agreement and plan document. A Roth IRA can be established at anytime during the year but contributions for a tax year must be made before the owner's tax filing deadline.