

Information for Better Living

Investing with IRAs: 2009/2010 Guidelines

First, you need to determine what types of IRAs you are eligible to contribute to.

IRAs were created by Congress over 30 years ago to help Americans protect and enhance their retirement security. Today, IRAs are the largest component of the U.S. retirement market (over 25% according to the Investment Company Institute, Feb. 2006).

Here are some guidelines to help you decide if you should be contributing to IRAs.

Contribution Limits

The IRA contribution limit is \$5,000 for the 2009 and 2010 tax years. Note that you can only contribute a combined total of up to the annual limit to a traditional IRA or Roth IRA – not \$5,000 to each.

If you're age 50 or older, you can also contribute an extra annual \$1,000 for the 2009 and 2010 tax years.

Roth IRAs

Contributions to a Roth IRA aren't tax deductible when you make them. But in favorable contrast to a traditional IRA, you can withdraw your earnings free from federal income tax if you meet the specified conditions.

You can contribute to a Roth IRA if you meet the modified adjusted gross income limits:

- If you're a single taxpayer and your income is under \$105,000 (for 2009 and 2010), you're eligible to contribute up to the annual limit or up to your annual compensation, whichever is less. You're eligible to make a partial contribution if your income is between \$101,000 and \$116,000 (\$105,000 and \$120,000 for 2010).
- If you're married and file a joint tax return (including if you're a spouse with little or no compensation), and your joint income is under \$166,000 (\$167,000 for 2010), you're eligible to contribute up to the annual limit or up to your annual compensation,

whichever is less. You're eligible to make a partial contribution if your income is between \$166,000 and \$176,000 (\$167,000 and \$177,000 for 2010).

Tax-Deductible Contributions to a Traditional IRA

If you meet the eligibility requirements, you can deduct contributions to a traditional IRA from your federal taxable income, as well as from your taxable income in most states.

In addition to this up-front tax break, money in a traditional IRA accumulates tax deferred. You'll eventually have to pay taxes, but not until withdrawal when both your contributions and earnings are taxed at your regular income tax rate.

To qualify, you must be under age 70½ and have received compensation (in general, income earned from working). From there, you're automatically eligible if neither you, nor your spouse if you're married, are covered by an employer-sponsored retirement plan.

If you're a single taxpayer and you are covered by an employer-sponsored retirement plan, or you're a married taxpayer and either you or your spouse are covered by an employer plan, your eligibility depends on your modified adjusted gross income.



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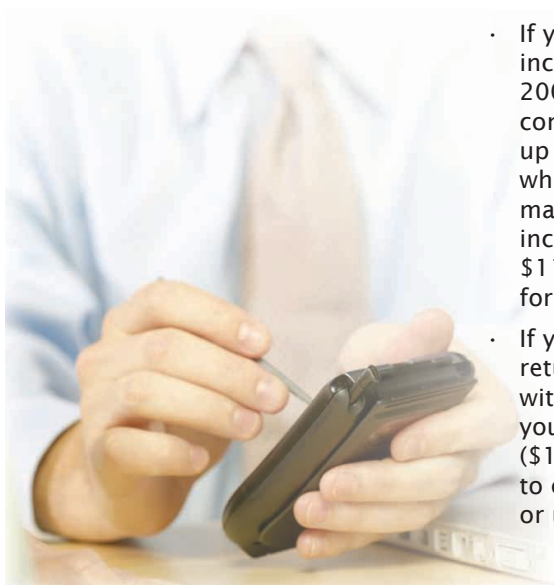
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What's better for you, tax relief now or tax-free income in your retirement years?

Following are the rules for 2009 and 2010 tax year contributions:

- If you're a single taxpayer you can deduct up to the annual limit if your income is under \$55,000 (\$56,000 for 2010). If your income is between \$55,000 and \$65,000 (\$56,000 and \$66,000 for 2010) you can deduct a portion of your contribution. If you're married and file a joint tax return and you're covered by an employer retirement plan, you can deduct up to the annual limit if your joint income is under \$85,000 (\$89,000 for 2009). If your income is between \$85,000 and \$105,000 (\$89,000 and \$109,000 for 2009), you can deduct a portion of your contribution.
- If you're married and file a joint tax return and you're not covered by an employer retirement plan (including if you're not employed), but your spouse is covered by an employer plan, you can deduct up to the annual limit if your joint income is under \$166,000 (\$167,000 for 2009). If your joint income is between \$166,000 and \$176,000 (\$167,000 and \$177,000 for 2010) you can deduct a portion of your contribution.

Sorting Out Your IRA Options

If you're eligible to contribute to a Roth IRA and also to make tax deductible contributions to a traditional IRA, which should you contribute to? If you think your tax bracket will stay about the same, fall only slightly, or increase, you'll have more after taxes at retirement with a Roth IRA. That's because Roth IRA contributions are made up of after tax dollars and the full amount can compound tax free. In contrast, tax-deductible traditional IRA contributions will be taxed when you make withdrawals, shrinking the amount you actually have to spend in retirement.

On the other hand, if you think your tax bracket will significantly decrease once you reach retirement, you'll generally have more after taxes with a traditional IRA. That's because you're sheltering your current income from a higher tax rate now and making withdrawals at a lower tax rate. This is just a general guideline, however. If you're over 20 years from retirement, it is generally advisable to invest in a Roth IRA.

The best advice? Consult with a financial advisor made available through your financial institution to determine which IRA is best for you.

Nondeductible Contributions to a Traditional IRA

If you're not eligible to make tax-deductible contributions to a traditional IRA or to contribute to a Roth IRA, you only have one IRA option - nondeductible contributions to a traditional IRA.

If you're under age 70½, you're eligible whether or not you're covered by an employer-sponsored retirement plan, regardless of your income level. Although your contributions aren't tax deductible, your earnings still accumulate tax deferred. Later as you make withdrawals, these earnings will be taxed at your regular income tax rate. However, because your contributions weren't tax deductible, you won't owe any tax on that portion of your distributions.

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