

Do you know how the **new IRA legislation** will affect you?

Answers

To Your

Questions

Take a few minutes to review
this **informative Q&A booklet**
and start planning your new
savings strategies now.

**The laws
they are
a-changin’**

IRAs have always been a great tax-favored way for you to save for retirement, and now, thanks to the Economic Growth and Tax Relief Reconciliation Act of 2001, they’re better than ever.

The IRA was originally designed for American workers striving to save for retirement. But over the years, Congress did not adjust the maximum contribution limits to keep pace with inflation.

Today, as people live longer, they are more eager than ever to save for retirement, but find that their employer-sponsored plans and Social Security are not enough to provide for a secure retirement.

With the enactment of President Bush’s tax bill, IRAs are getting a much-needed face-lift to help Americans start saving like never before. Starting with tax year 2002, this exciting new law:

- Boosts annual contribution limits.
- Provides “catch-up” contributions for people age 50 and older.
- Makes it easier to consolidate assets in IRAs and employer-sponsored plans.
- Offers a tax credit to low- and middle-income people who make IRA contributions.

The following Q&A section describes most of the changes in greater detail, but we encourage you to contact your credit union with any additional questions, concerns or comments.

Q. What are the new IRA contribution limits?

A. The maximum annual limit for both traditional and Roth IRA contributions will be raised, in incremental steps, to \$5,000 by the year 2008. The limit will be increased to \$3,000 for 2002 through 2004, \$4,000 for 2005 through 2007, and \$5,000 for 2008 through 2010. For tax years beginning after 2008, the \$5,000 limit will be adjusted for inflation in \$500 increments.

Q. How much can I contribute to a Roth or traditional IRA for 2002?

A. Assuming eligibility, you can contribute up to \$3,000 per year or 100% of your earned income, whichever is less. Married couples can contribute up to a total of \$6,000 per year, but no more than \$3,000 per spouse. These contribution limits are

in effect for contributions made to Roth and traditional IRAs even if they are made in 2003 for tax year 2002. You can contribute the maximum to a traditional IRA, Roth IRA or split between the two types.

Q. How does the “catch-up” contribution plan work if I am age 50 or older?

A. A special exception applies if you are age 50 or older that allows you to contribute an additional \$500 to an IRA for the 2002 through 2005 tax years, and an additional \$1,000 for 2006 through 2010. This limit will not be adjusted for inflation.

Q. What is the provision for the new income tax credit for those with lower to moderate incomes?

A. To make savings even more attractive, if you are a low- or middle-income wage earner, you'll be eligible for an income tax credit for contributions to an IRA. The amount of the tax credit depends on your adjusted gross income. The maximum tax credit is equal to \$1,000. For example, depending upon your adjusted gross

income, a contribution of \$2,000 could be made to a traditional or Roth IRA, producing a \$1,000 tax credit. This provision is effective for tax years 2002 through 2006.

Q. How do the new rollover provisions work?

- A.** Now there are more options for you if you leave your job and want to take your retirement plan assets with you. Employees have always been able to roll over taxable distributions from Section 401 and 403(b) plans to an IRA. In 2002 and later years, you will also be able to roll over nontaxable voluntary employee contributions and distributions from governmental Section 457 plans to an IRA.

Q. How does the new law affect Education IRAs?

- A.** One of the biggest drawbacks to the Coverdell Education Savings Account (ESA), formerly known as the Education IRA, when it was originally enacted was the \$500 annual contribution limit. The new law expands the contribution limit to \$2,000 and increases the income limits if you are married and filing jointly, making the

Coverdell ESA a much more attractive savings plan. Furthermore, you will be able to make tax-free withdrawals from the accounts for elementary and secondary school costs as well as college. Covered expenses include tutoring, computer equipment, room and board, uniforms, extended day program costs and even Internet access.

Q. Can I make a Coverdell ESA contribution in 2003 for 2002?

- A.** Your Coverdell ESA contributions for 2002 can be made up until your tax return deadline for 2002 (usually April 15, 2003).

More questions?

Ask your credit union. Due to the complexity of IRAs, you should also plan to consult with a tax professional to make sure you're making the most of the new legislation.

*Not intended to provide tax advice.
Please contact a tax professional.*

