

## Individual Retirement Accounts

### Traditional IRA

- Contributions may or may not be tax deductible depending upon employer sponsored plans and income (Adjusted gross income)
- Contributions can be made regardless of adjusted gross income
- All contributions can be made January 1<sup>st</sup> of the current year through April 15<sup>th</sup> of the following year
- Age 50 and over can make an additional \$500.00 “catch up” contribution through 2005 and additional \$1,000.00 in 2006 and up
- Contributions:
  - 2004 - \$3,000.00
  - 2005-2007 - \$4,000.00
  - 2008 and up - \$5,000.00
- Anyone under the age of 70 ½ who has income from compensation (or is filing jointly with a spouse who earns compensation) can contribute
- Income taxes are paid on interest earned only after they begin to withdraw money
- Distributions are taxed at ordinary income tax rate
- Earnings are tax-deferred until distribution, at which time the member is in a lower income tax bracket
- Withdrawals are restricted
  - 10% penalty if withdrawn before age 59 ½
  - Exceptions: Death, divorce, disability, excess medical expenses, self paid health insurance, first time home buyer, higher education and substantially equal periodic payments based on life expectancy of you and beneficiary
  - Minimum age at which a member must begin withdrawing money from a traditional IRA is 70 ½
  - He/She must either take a lump sum or begin withdrawing a required minimum distribution (RMD) monthly, semi-annually or annually
  - The member can have Hopewell Federal Credit Union withdraw the money for them or they can be responsible to take the RMD
  - RMDs are calculated by dividing the December 31<sup>st</sup> balance from the previous year based on their life expectancy set by the government
  - If an owner fails to take the RMD, the IRS will impose a 50% Excess Accumulation Tax on any remaining portion of the RMD in the IRA
- Direct Transfers: Member can request funds to be moved directly from one institution to another
  - Owner never has access to these funds
  - Allowed unlimited direct transfers in a given year not reported to the IRS
- Rollover: Money goes to owner in the form of a check or deposit into account
  - Owner has sixty (60) days to reinvest into another IRA
  - May only rollover once every 365 days