



IRAS

Keeping You Informed



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Rule Changes For Converting A Traditional IRA To A Roth IRA

Starting in 2010, you have the opportunity to convert any or all of the funds in your Traditional IRA to a Roth IRA—regardless of your income level or tax-filing status—with absolutely no limit on the amount you can convert.

The new tax rules that deal with converting a Traditional IRA to a Roth IRA eliminate permanently, the

\$100,000 income limit for Roth conversions, as well as the restrictions on spouses who file separate tax returns.

Please keep in mind, the new tax rules

do not change the income limits required to be eligible to contribute to a Roth IRA.

When you convert assets from a Traditional IRA to a Roth IRA, you have to pay income tax on all pretax contributions and earnings included in the amount you convert.



What Happens If You Inherit An IRA From Someone Other Than A Spouse

Inheriting an IRA as a non-spousal beneficiary is an opportunity to help fund your own retirement. Please check with your tax advisor concerning all of the required minimum distribution (RMD) methods that may be available for your specific situation.

RMD FOR A NON-SPOUSAL BENEFICIARY

One of the choices that will enable you to maintain the tax-deferred status and continued growth of your inherited Traditional or Roth IRA to its full advantage requires you to take a RMD (required minimum distribution) beginning in the year following the year in which the owner died. Since it is now your life expectancy which will determine the minimum amount to be withdrawn from the inherited IRA each year, you may be able to maintain the growth of those assets for years to come, thus adding to your own source of retirement income.

These required minimum distributions are not subject to the early withdrawal penalties usually associated with distributions taken from IRAs before age 59½. You can also withdraw more than the required distributions, if need be, without incurring penalties.

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AT A GLANCE - Traditional & Roth IRA Contribution Limits

INDIVIDUAL	Annual Contribution Limit	Annual Catch-Up Contribution Age 50 or Older	Maximum Annual Contribution Limit Age 50 or Older (including Catch-Up)
	\$ 5,000	\$ 1,000	\$ 6,000
MARRIED/SPOUSAL	Annual Contribution Limit	Annual Catch-Up Contribution Both Age 50 or Older	Maximum Annual Contribution Limit Both Age 50 or Older (including Catch-Up)
	\$ 10,000	\$ 2,000	\$ 12,000

Total yearly contributions that can be made by an individual to all IRAs (Traditional and Roth) is \$5,000 (\$6,000 if age 50 or older).

TAXES ON THESE DISTRIBUTIONS

- If you inherit a Traditional IRA, usually at least a portion of the distribution is taxable as ordinary income.
- If you inherit a Roth IRA, distributions will generally not be taxed at all, but you will still be required to take the required minimum distributions.

If you inherit an IRA, we can help you to set up the inherited IRA account and distributions so that you can maintain growth on the remaining assets for your own retirement. □

The Most Often Asked Questions About A Traditional IRA

What Is An IRA?

An Individual Retirement Account (IRA) is a special savings plan authorized by the Federal government to help you accumulate funds for your retirement.

Who Is Eligible To Contribute To An IRA?

Every individual who has earned income or received alimony may contribute to an IRA. Income from other sources such as investments or inheritances does not qualify. Contributions may not be made for or after the year in which you reach age 70½.



I Am An Active Participant In An Employer-Sponsored Retirement Plan. May I Deduct IRA Contributions?

Your IRA contribution may still be fully or partially deductible, depending on your income level.

Are IRA Earnings, Such As Interest and Dividends, Tax-Deferred?

All the earnings you accumulate in your IRA remain tax-sheltered until withdrawn.

Must I Contribute The Full Amount Each Year?

No. You can contribute any amount your budget allows, either in one or more contributions. In fact, if you choose, you need not make any contributions in a given year.



When Can I Make Withdrawals?

Withdrawals (distributions) are permitted any time after age 59½ but must start by April 1st following the year in which the participant reaches the age of 70½. After age 59½, you may make withdrawals even if you continue to earn income. It is not necessary to be retired in order to make withdrawals.

Can I Make Earlier Withdrawals?

There is a 10% penalty for withdrawing all or any part of the account before age 59½, with the following exceptions:

- in the event of death or total disability.
- you may withdraw nondeductible contributions (earnings on these contributions will be taxable).

- as a qualified first-time homebuyer you may withdraw up to \$10,000 during your lifetime. It must be used within 120 days to pay costs (including reasonable settlement, financing or other closing costs). This exception is available for expenses of the individual, spouse, child, grandchild, or ancestor of such individual or spouse.
- if you use the withdrawal to pay qualified higher-education expenses.
- if you use the withdrawal to pay for medical expenses in excess of 7.5% of your adjusted gross income or to purchase health insurance after receiving unemployment compensation for more than 12 weeks.
- if the funds are paid out in a series of payments made over your life expectancy (or the joint life expectancy of you and your beneficiary or the fixed amortization method determined once for the first year, then the payment is the same amount fixed for each succeeding year).



You can have your federal income tax refund deposited directly to your IRA.

IRA QUICK QUIZ

Test your knowledge of IRAs by answering the following questions, using T for true or F for false. Then check your responses against the answers on page 3.

1. ___ You can take money out of your IRA at any time.
2. ___ You cannot contribute to an IRA if you participate in a company-sponsored retirement plan.
3. ___ You can transfer IRA funds from one institution to another only once a year.
4. ___ If you die before withdrawing all of your money from an IRA, the government decides who receives the balance.
5. ___ You can make more than one IRA contribution each year.
6. ___ If you receive a lump sum distribution from a company retirement plan, your employer is required to withhold 20% of the total for federal income tax purposes.
7. ___ As long as you have earned income, you can contribute to a Traditional IRA.
8. ___ Under the current tax code, you must begin withdrawing from your Traditional IRA at age 59½.
9. ___ The deadline for completion of a conversion from a Traditional to a Roth IRA is April 15th.
10. ___ Under a rollover, you have until April 15th or the date on which you file your tax return to redeposit IRA funds.

How did you do?

Check your responses against the following answers. If you scored 10 correct, you are an IRA expert! If you got 8 or 9 correct, you are in the know. If you scored below 8, don't worry—the information you need is in this issue. Keep reading; we will keep you informed.

continued on page 3

Reminder...IRAs are insured separately for **\$250,000.00**

When Are Taxes Paid On IRAs?

When you begin making withdrawals, you will be taxed on only the amount you withdraw each year on which taxes have not previously been paid. The remaining funds continue to accumulate tax-deferred earnings. In all probability, you will benefit by the fact that you will be in a lower tax bracket than at the time you made your contribution.

What Is The Deadline For Contributing To An IRA?

You can open or make contributions to your IRA any time up to and including the due date of your tax return for the previous tax year, normally April 15th.

IRA Deductions For Active Participants In Employer-Sponsored Retirement Plans

If you are an active participant in an employer-sponsored pension or profit-sharing plan, your IRA contribution deduction will depend on your level of adjusted gross income.

Active participants below a “threshold

level” of income may make deductible IRA contributions. Active participants with incomes above the phaseout limit are not entitled to any IRA deduction.

I Am Not An Active Participant In An Employer-Sponsored Retirement Plan. May I Deduct IRA Contributions?

If you are not an active participant in an employer-sponsored pension or profit-sharing plan, you can deduct 100% of your IRA contribution regardless of income level. If your spouse is an active participant and your joint income is \$167,000 in 2010, you cannot fully deduct your IRA contribution.

Partial deductions are permitted for joint incomes between \$167,000 and \$177,000 in 2010.



IRA Quiz - continued from page 2

Answers to the IRA Quiz

1. *True.* However, withdrawals taken before age 59½ are subject to a penalty of 10%, as well as taxed as current income, unless the withdrawal is due to the account owner's death or disability or the funds are taken in equal periodic payments over his/her expected remaining lifetime.
2. *False.* This is one of the biggest myths about IRAs. You CAN contribute to an IRA whether you participate in a company retirement or not. It is the contributions's deductibility that may be affected by your status as a pension plan participant.
3. *False.* The tax code permits direct transfer of funds from one institution to another as often as you like. However, you can only roll over funds—that is, take possession of them before redepositing them—once in any 12-month period.
4. *False.* Provided you have a current beneficiary designation form on file, you determine to whom your IRA funds go if you die before your funds are exhausted.
5. *True.* You can make as many contributions as you want, provided they do not total more than \$5,000 (\$6,000 if age 50 or over) or 100% of your earned income, whichever is less.
6. *True.* If you elect to receive the distribution, your employer is required to withhold 20%. You can avoid this withholding, however, by having your employer transfer the distribution directly into an IRA.
7. *False.* The tax code permits you to make contributions for a Traditional IRA only up to the age of 70½. A Roth IRA has no age limit on contributions.
8. *False.* You may begin withdrawing from your account without penalty at age 59½, but you are not required to do so until age 70½.
9. *False.* The deadline for Traditional to Roth conversions is December 31st of the year of the conversion.
10. *False.* You have only 60 days to redeposit funds under the tax code's rollover provisions. Failure to do so could result in a 10% penalty for early withdrawal if you are under 59½ plus taxation at your current rate.

Choosing A Tax Professional That Is Right For You

Even if you're among those who file IRS form 1040-EZ at tax time, chances are you use some kind of tax preparation service. But, if your situation is more complex, you probably need tax advice. Choosing the right professional is an important decision. Here are some guidelines to finding the help you need.

FIRST, decide what level of expertise you require. Commercial tax preparers and accountants can represent you if the IRS questions a return they have prepared. But your finances and tax situation may warrant the services of one of the following types of tax experts:

- *Certified Public Accountants* must meet certain minimum education and/or experience requirements and pass an accounting proficiency test.
- *Enrolled Agents* must pass an IRS test or have worked for the IRS for at least five years.
- *Tax attorneys* are lawyers who specialize in providing year-round tax planning. They must pass state tests and can represent you in Tax Court.

SECOND, make an appointment with each tax professional you are considering. Check their qualifications and question them on their experience, as well as their education and expertise. (Experience can be more valuable than untried text book learning if your situation is unusual or complex.) Ask if they are available for year-round consultation and how proactive they are in apprising you of tax law changes that may affect you. Make sure you are comfortable with their approach to “gray” areas of tax law— whether they are conservative or aggressive in pursuing deductions. Find out how and what they charge for their services.

THIRD, ask for references and be sure to follow up on them. Get names of clients whose professional and/or personal circumstances are similar to your own and ask how long they have been working with the tax advisor, what types of services they have received, and how satisfied they are with the results.

Finally, make a decision, taking into account, not just the “hard” facts you gathered in the first three steps, but your comfort with the individual. It's important that you trust and feel respected by a tax advisor to get the best advice and the best value for your money. □



Roll Your Distribution Over To Us

Leaving your job or retiring soon? If you're expecting a distribution from your employer's retirement account, roll it over to an account with us.

A direct rollover to an IRA with us lets you avoid:

- the 20% federal income tax withholding on your distribution
- the 10% penalty for early withdrawal of retirement funds; and
- current taxation.

Keep all of your money safe and working hard for you.

fastfact

Roth IRAs have no minimum distribution requirement and no age limit when you must stop making contributions.

What Happens To An IRA If There Is A Divorce?

In any divorce situation the court may award all, part, or none of your IRA to your spouse.

However, no taxes will be in effect upon transfer of any IRA assets in a case of this type. The spouse receiving the IRA will be considered the new owner and, in keeping with regular policies, will not pay taxes until the funds are withdrawn.

“CATCH-UP” CONTRIBUTIONS REMINDER

Traditional & Roth IRAs

Workers 50 or older before the end of the taxable year, can make up for lost time with additional \$1,000 IRA contributions over and above the maximum limits up to April 15th for the previous year.

You Owe It To Yourself To Build A Healthy Nest Egg!



Challenge yourself to build a better body...that is today's mantra for a healthier lifestyle. How about challenging yourself to build a healthier nest egg for your retirement.

Statistically, there are many people who don't contribute to IRAs.

Statistically, there are many people who don't have access to work-based retirement accounts.

Challenge yourself to start funding a Traditional or Roth IRA for a healthier financial future. Remember, even if you have fully funded your work-based retirement account, you may be able to set up a Traditional or Roth IRA to increase the size of your retirement "nest egg".

The following chart outlines the features of the Traditional and Roth IRAs.

	Traditional IRA	Roth IRA
Who can contribute	Anyone younger than age 70½ who has income from compensation (or who is filing jointly with a spouse who earns compensation)	Anyone regardless of age who has income from compensation (or who is filing jointly with a spouse who earns compensation) with the following modified adjusted gross income: <ul style="list-style-type: none"> • \$105,000 (single filers) • \$167,000 (joint filers) Reduced contributions are allowed for higher incomes (\$120,000 for single filers and \$177,000 for joint filers).
Tax benefits	Earnings grow tax-deferred until withdrawn	Regular contributions can be withdrawn tax and penalty-free at any time, for any reason, earnings are tax and penalty-free if the account has been open for five tax years and the withdrawal is for a qualified reason (age 59½, disability, death, or a first-time home purchase* or certain medical expenses).
Deductible	Based on your income, you may be able to deduct your contributions when computing your income taxes.	Not deductible - contributions are made with after-tax dollars.
Maximum contribution**	\$5,000	Same as Traditional IRA
Catch-up contributions (if you're age 50 or older)	Add additional \$1,000	Same as Traditional IRA

*Lifetime limit for exemption on first-time home purchase is \$10,000.

**Total combined contributions to Roth and Traditional IRAs.

IMPORTANT NOTE: The information contained in this newsletter is not intended to provide specific advice or recommendations for any individual. We suggest that you consult your attorney, accountant, tax or financial advisor with regard to your personal situation.