



Start planning now for retirement with an individually tailored account. IRA variable savings accounts have a \$25.00 minimum balance. We also offer IRA certificates at our competitive certificate rates with a \$500.00 minimum balance.

What is an IRA?

An IRA is an Individual Retirement Account. An IRA is owned by an individual and can only be established in the name of the owner. IRAs were introduced in 1975 as a means to promote tax-deferred savings and to provide a supplement to Social Security for retirement.

The credit union offers both Variable Account IRAs and IRA Certificates, which fix an interest rate for terms ranging from three months to 60 months. Three types of IRA's are now available - the Traditional IRA, the Roth IRA, and the Education IRA.

Traditional IRA

Contributions

The maximum contribution for an individual is \$5,000.00 (\$6,000.00 for individuals over 50 years of age). The actual contribution may differ for each individual, depending on income and whether the individual already has a pension plan. All funds contributed to an IRA must be compensation - that is, income earned in the year in which it is deposited.

The amount of contribution is subtracted from gross income in the year deposited and no taxes are paid on either the contribution or the earnings (dividends) until withdrawn after retirement. During retirement, income is less; therefore the tax bracket is lower.

Distribution

When an individual reaches age 70 ½, he or she must begin to take a periodic payment or "distribution" for that year and each year thereafter. The distribution is determined by the Fair Market Value of the IRA and selection of one of several options by the individual. Each year the distribution is reported as income in the year in which it is received.

Penalties

You have more options to withdraw funds from traditional IRA's without the 10% tax penalty that applies to distributions before age 59 ½. Withdrawals for qualified higher education expenses are now penalty-free. Qualified expenses include tuition, fees, books, supplies, and equipment to attend college or vocational school.

Penalty-free withdrawals are also allowed for first-time home buyers to buy or build a home, including settlement, financing, or other closing costs provided the home buyers haven't owned a home during the past two years.

Penalty-free withdrawals continue to be available for IRA owners who reach age 59 ½, become disabled, or have qualifying medical expenses.

The credit union imposes no penalty for withdrawing from a variable IRA. If an IRA Certificate is withdrawn prior to maturity, the credit union imposes a substantial penalty. For Certificates with a term of less than one year, the penalty is all dividends for 90 days on the amount withdrawn or all dividends from the date of issuance or renewal. For CDs with a term of one year or more, the penalty is all dividends for 180 days on the amount withdrawn or all dividends from the date of issuance or renewal.

Roth IRA

Contributions

Contributions to a Roth IRA are not tax deductible. However, withdrawals from a Roth IRA may be tax-free.

Married couples filing a joint tax return with modified adjusted gross income (MAGI) up to \$150,000 and single filers with MAGI up to \$95,000 can make full contributions to a Roth IRA. Those with higher incomes may qualify for reduced contributions. Contributions can be made to a traditional IRA, a Roth IRA, or both for a given year. The total contributed cannot exceed your annual compensation or \$5,000 (\$6,000 for individuals over 50 years of age) per year, whichever is



less.

Distribution

Withdrawals from a Roth IRA are tax-and penalty-free as long as the account has been open for at least five tax years and you are either over age 59 ½, disabled, or buying a first home.

You may withdraw tax-and penalty-free the contributions you have made to the account at any time. However, when you withdraw the earnings without meeting the above requirements, they are subject to income tax and may be subject to a 10% penalty tax.



You can transfer your traditional IRA funds to a Roth IRA, provided MAGI from your federal tax form is no more than \$100,000.00 in the year you transfer it.

The money you transfer to a Roth IRA is subject to income tax in the year that it is transferred except when the withdrawal is a return on nondeductible contributions. The 10% penalty tax does not apply. If your contributions were not tax deductible at the time you made them, then only the earnings on the account are subject to income tax when you transfer them. Taxable income resulting from the transfer of money from a traditional IRA to a Roth IRA is ignored when determining whether your MAGI for the year is less than \$100,000.00.

If you transfer funds from your traditional IRA during 1998, then the taxable income created by the transfer is spread evenly over four tax years - 1998 through 2001. After December 31, 1998, this special tax treatment is no longer available and the entire taxable amount of your distribution is subject to income tax in the year you receive it.

If you are unsure whether a Roth IRA is right for you, check with your tax advisor.

Education IRA

Starting January 1, 1998, parents and other interested persons may be able to establish an Education IRA for a child under the age of 18. Contributions to the account will not be tax deductible, but the earnings will be tax-free if used for qualified higher education expenses.

You are eligible to contribute to an education IRA if you and your spouse file a joint tax return and have a joint modified adjusted gross income (MAGI) of \$150,000 or less, or, if you file a single return and your MAGI is \$95,000 or less. Those with higher incomes may qualify for reduced contributions. You are not eligible to contribute if you make a contribution to a qualified state tuition program during the year.

Contributions cannot exceed \$2,000 per child per year. If parents, grandparents, and others have each set up an account for the same child, their combined contributions cannot exceed \$2,000.00 per child per year. Careful tracking is important to avoid possible penalties.

Withdrawals from an Education IRA are tax-and penalty-free, provided the child's qualified higher education expenses equal the withdrawals from the Education IRA for that year. Otherwise, any withdrawal of earnings from the account is taxable and a 10% penalty tax may apply.

An Education IRA can be a great savings vehicle even if you are not sure whether your child will attend college or vocational school. The funds can be transferred from one child's Education IRA to another child's if that child is a member of the same family.



Telephone 781-843-5626, Toll Free 800-370-1939 Fax 781-356-7302
Email: info@tremontcu.org Website: www.tremontcu.org