

IRAs Compared

There are substantial differences between a traditional (nondeductible) IRA, a traditional (deductible) IRA and a Roth IRA.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Basic eligibility requirements	Any person under age 70½ who has compensation	Any person under age 70½ who has compensation	Any person of any age who has compensation ¹
Maximum contribution	Generally, the lesser of \$5,000 ² (\$10,000 ³ for a married couple) or 100% of compensation. ⁴		
Is the contribution deductible?	No	Yes, if neither participant nor spouse is covered by a qualified plan (QP). If single and covered by a QP, contribution is deductible if adjusted gross income (AGI) is less than \$53,000. Deduction phased out for AGI between \$53,000 and \$63,000. If MFJ and one spouse is covered by a QP, the nonparticipant spouse may make a deductible contribution if AGI is \$159,000 or less. This deduction is phased out for AGI between \$159,000 and \$169,000. The participant spouse may make a deductible contribution if AGI is \$85,000 or less. This deduction is phased out for AGI between \$85,000 and \$105,000. ⁵	No
Are earnings currently taxed?	No	No	No

¹ For 2008, the maximum contribution to a Roth IRA is phased out for single taxpayers with adjusted gross income (AGI) between \$101,000 and \$116,000. For married couples filing jointly, the phaseout range is an AGI of \$159,000 to \$169,000. For married individuals filing separately, the phaseout range is an AGI of \$0 to \$10,000.

² This amount applies to 2008. For 2007, the maximum allowable contribution was \$4,000.

³ This amount applies to 2008. For 2007, the maximum allowable contribution was \$8,000.

⁴ If an IRA owner is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

⁵ These are 2008 limits. For 2007 the phase-out ranges were (1) MFJ - AGI of \$83,000 - \$103,000; (2) Single - \$52,000 - \$62,000. For taxpayers using the MFS filing status, the phase-out range is \$0 - \$10,000, which does not change.

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Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Taxation of withdrawals at death and disability¹	Contributions are received tax-free and earnings are taxable.	All distributions are taxable.	No taxation of qualified distributions.
Taxation of \$10,000 withdrawn for first-time home purchase¹	Proportionate part attributable to earnings is taxable	All \$10,000 subject to income tax	No taxation of qualified distributions.
Taxation on withdrawals to pay for medical expenses¹	Proportionate part attributable to earnings taxed as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses; e.g., amounts in excess of 7.5% of AGI.	Entire withdrawal taxable as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses; e.g., amounts in excess of 7.5% of AGI.	Earnings are taxable at ordinary rates unless IRA owner is age 59½ or older and established Roth IRA five or more years prior.
Taxation on withdrawal to pay for educational expenses¹	Proportionate part attributable to earnings is taxable.	Entire withdrawal is subject to income tax.	Earnings are taxable at ordinary rates unless IRA owner is age 59½ or older and established Roth IRA five or more years prior.
Taxation of distributions not covered above²	Nondeductible contributions received tax-free. Earnings are taxed at ordinary rate.	All distributions are taxable at ordinary rates.	Earnings are taxable at ordinary rates unless IRA owner is age 59½ or older and established Roth IRA five or more years prior.
Are there required, minimum distributions?	Distributions must start at age 70½.	Distributions must start at age 70½.	No minimum distribution is required during the life of owner.
Are direct transfers of funds in an IRA to an Health Savings Account allowed?	Yes	Yes	Yes
By when must an IRA be set up and funded?	By the due date for filing the IRA owner's federal income tax return for the year of the contribution, generally April 15 of the following year.		
Federal bankruptcy protection	Federal bankruptcy law protects assets in all IRAs, up to \$1,000,000. In the future, the \$1,000,000 limit will be indexed for inflation. Funds rolled over from qualified plans are protected without limit.		

¹ For individuals under age 59½, the 10% penalty tax does not apply in these situations.

² All taxable amounts are subject to penalty tax of 10% if received prior to age 59½, unless the above exceptions apply. For traditional IRAs, the penalty is waived if the distribution is annuitized over the participant's life or life expectancy.

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Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
May federal income tax refunds be directly deposited into the IRA? ¹	Yes	Yes	Yes
Are tax-free direct transfers of up to \$100,000 to a qualified charity by an owner at least age 70½ allowed? ²	Yes	Yes	Yes

Comparison of Returns from Various Types of IRAs

The table below is a hypothetical illustration of the impact of time and income taxes on the various types of IRAs.³ The calculations assume that any tax savings from deductible contributions are invested in a separate, annually-taxable fund and that all funds are withdrawn in a lump sum at retirement.

Assumptions:

- Desired net annual contribution: \$5,000
- Marginal income tax bracket – pre-retirement: 28.00%
- Marginal income tax bracket – post-retirement: 25.00%
- Tax-deferred growth rate: 8.00%
- After-tax growth rate: 5.76%
- Number of years until retirement: 20



Item	Traditional Nondeductible IRA	Traditional Deductible IRA	Roth IRA
A. Pre-Retirement			
1. Contributions are made	After-tax	Before-tax	After-tax
2. Gross amount	\$6,944	\$5,000	\$6,944
3. Income taxes payable	1,944	0	1,944
4. Net annual contribution to IRA	5,000	5,000	5,000
5. Annual tax savings to taxable account	0	1,400	0
Total net annual savings	\$5,000	\$6,400	\$5,000
B. At Retirement			
1. Net accumulation in the IRA ⁴	\$247,115	\$247,115	\$247,115
2. Future value of tax savings	0	53,082	0
3. Total available before taxes	\$247,115	\$300,196	\$247,115
4. Income taxes payable	-36,779	-61,779	0
Net after income taxes	\$210,336	\$238,418	\$247,115

¹ Beginning in 2007.

² Applicable to 2006 and 2007 only. No charitable deduction is allowed for such transfers.

³ Based on federal law. State or local law may differ.

⁴ Assumes annual contributions are made at the beginning of each year.