IRA NEWSLETTER

IRAs
Keeping You Informed

BlueChip FCU

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Are You Receiving A Lump Sum Distribution Because You Are Changing Jobs?

YOU ARE FACING AN IMPORTANT DECISION!

If you are among those who have managed to accumulate retirement funds through an employer plan, you may be given a one-time lump sum distribution of your retirement benefits if you are terminating your employment to change jobs.

What you do with that distribution can have a substantial, *immediate* financial impact on you, as well as long-term consequences.

Your three options in this situation are to keep all of the distribution, roll all of the distribution over into an IRA, or keep some and roll the rest over into an IRA. If you can afford to do so, we strongly recommend rolling over the entire amount, for two reasons:

1) Any portion of the distribution you keep will be considered income to you and taxed at your current tax rate. That means you could lose 15% or 28% or more right off the top.
2) If you're younger than 59½, you will pay an additional 10% as a premature distribution penalty, unless you qualify for an exemption from the penalty.

Thus, if you're in the 28% tax bracket and receive a distribution of $20,000, you could lose $7,600 ($5,600 in income tax, plus a $2,000 penalty). If you choose the rollover, however, you keep the entire $20,000 working for you, earning more money for your retirement years.

Benefits of Direct Rollovers

Assuming you opt for the rollover, we also recommend that you arrange for a *direct* rollover to this financial institution, rather than taking possession of the money for up to 60 days, as allowed by IRS regulations. If you physically receive any of the money, your employer is required by law to withhold 20% of the distribution for taxes. While you may get it back when you file your tax return, you still have to roll over an amount equal to your entire distribution into an IRA to avoid current taxation and penalties.

Other direct rollover advantages include allowing for consolidation of retirement plan assets, keeping the tax-deferred status of your reinvestment and you gain the option of taking penalty-free withdrawals for higher education costs and a first-time home purchase.

So, as you see, rollovers make good financial sense — both in terms of avoiding current taxes and penalties and in terms of building assets for your later years. If you anticipate receiving a lump-sum distribution, see us today. We will be happy to assist you in arranging a direct rollover. •

IRA Fast Fact

NCUA
(National Credit Union Administration)

Insurance Coverage On Retirement Accounts Increased From $100,000 To $250,000!

This change became effective April 1, 2006

INSIDE THIS ISSUE:

TRADITIONAL & ROTH IRA CONTRIBUTION LIMITS

INDIVIDUAL Tax Years	Annual Contribution Limit	Annual Catch-Up Contribution Age 50 or Older	Maximum Annual Contribution Limit Age 50 or Older (including Catch-Up)
2007	$ 4,000	$ 1,000	$ 5,000
2008	$ 5,000	$ 1,000	$ 6,000
MARRIED/SPOUSAL Tax Years	**Annual Contribution Limit**	**Annual Catch-Up Contribution Both Age 50 or Older**	**Maximum Annual Contribution Limit Both Age 50 or Older (including Catch-Up)**
2007	$ 8,000	$ 2,000	$ 10,000
2008	$ 10,000	$ 2,000	$ 12,000

Total yearly contributions that can be made by an individual to all IRAs (Traditional and Roth) is $4,000 ($5,000 if age 50 or older) for tax year 2007.

IRA Fast Fact

What is the deadline for contribution to a Roth IRA or Traditional IRA?

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

Open A Traditional IRA Today!

- If you qualify, your contribution may be tax-deductible and will save you money at tax time.
- Earnings are tax sheltered.
- You are not taxed until you withdraw funds (withdrawals prior to age 59½ may be subject to 10% penalty).
- There are no income limits for contributions since everyone under age 70½ with earned income qualifies to contribute.

Open A Roth IRA Today!

- Although contributions are not tax deductible, any earnings are tax and penalty-free when withdrawn if you maintain the account for 5 years and meet the following conditions:
  a) Reach age 59½
  b) Death or disability
  c) Qualify as a first time home buyer (you may withdraw up to $10,000 during your lifetime)
  d) Qualified medical expenses
- There are **no age limits** for contributing or withdrawing.
- You can continue to contribute as long as you have earned income.
- Your contributions can be withdrawn tax and penalty free at any time.

Earn More With Earlier Contributions

More Incentive

The new larger contribution limits can become an even more important vehicle to fund your retirement plans.

Take Action

The only way you can reap the benefits of the new limits is to start planning on how to save more now so that you can make your contributions as early as possible to your existing or new IRA's.

The following chart illustrates just how big a difference saving early can make assuming a married couple making a deposit of $6,000 each year until age 65.

Age when first $6,000 deposit is made	Deposits made on January 1 of each tax year	Deposits made on December 31 of each tax year	Extra age 65 earnings by early deposit
25	761,040	724,800	36,240
30	569,019	541,923	27,096
35	418,566	398,634	19,932
40	300,681	286,362	14,319
45	208,317	198,396	9,921
50	135,945	129,471	6,471
55	79,242	75,468	3,774
60	34,812	33,153	1,659

Assumes that the IRA earns at an annual rate of 5% with annual compounding.

Don't forget that earnings on IRA accounts are tax-deferred, so all of the earnings in the account will grow even faster.

As they say, "time is money." Get in the habit of saving early – early in life, and early in the year. Contribute as much as you can, as soon as you can. That's the smart way to save for a brighter retirement. •

The Most Often Asked Questions About A Roth IRA

What Is A Roth IRA?

A Roth IRA is a special savings plan authorized by the Federal government to help you accumulate funds for your retirement. Contributions are non-deductible but all withdrawals, including earnings, are tax-free if the account has been open for five years and the account holder is 59½ or older.

Who Is Eligible To Contribute To A Roth IRA?

Every individual who has earned income or received alimony may contribute. Income from other sources such as investments or inheritances does not qualify. The accounts are available to couples with a modified adjusted gross income (MAGI) of up to $150,000 and singles up to $95,000. Contributions are phased out between $150,000 and $160,000 for couples and $95,000 to $110,000 for singles.

I Am An Active Participant In An Employer-Sponsored Retirement Plan, May I Contribute To A Roth IRA?

The fact that you participate in an employer-sponsored retirement plan does not exclude you from making a non-deductible contribution to a Roth IRA.

Are Interest And Dividend Earnings Tax-Deferred?

All the earnings you accumulate in your IRA remain tax sheltered and if they remain in the account for a period of five successive tax years they can be withdrawn tax-free. There are certain criteria that must be met to enjoy tax-free and penalty-free distributions.

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?

Penalty-free and tax-free withdrawals of your contributions are permitted at any time (until total distributions from all Roth IRAs exceed the contribution amount – no distribution of a contribution is subject to either taxation or penalty). Tax-free withdrawals of earnings are permitted after age 59½, in the event of death or total disability, or as a qualified first-time home buyer (up to $10,000). In order to be tax-free they must have remained in the account for a period of five successive tax years. There is no mandatory age requirement for distributions and funds may remain in the account during the account owner's lifetime.

Is There A Penalty For Early Withdrawals?

There could be a 10% penalty for withdrawing all or any part of the earnings. Taxable distributions are not subject to the 10% early withdrawal penalty if the individual is 59½, dead, disabled, or if taking equal period payments over his or her life expectancy for at least five years or until age 59½, whichever comes later, or for college expenses, first-time home purchase up to $10,000, certain medical expenses, and certain other uses.

When Are Taxes Paid On Roth IRAs?

Taxes are never paid on the original contributions which are not tax deductible in the year of your contribution. Taxes must be paid on all withdrawal of earnings which have not remained for a period of five successive tax years.

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A Teenage IRA Is Cool

A young person must have **earned income** to contribute to an IRA. Saving for retirement at a young age, generally is not high on a teenagers list when compared to cars, dating, college and iPods.

Compound Interest Makes A Great Case For Retirement Savings At A Young Age

A one time $4,000 contribution to an IRA for example at 5% annual return for 50 years annual compounding would grow to $45,869.

Why A Roth Vs. A Traditional IRA?

Given the tax bracket most teenagers are in, and all the time they have to invest, a Roth IRA may offer the best long term financial gain.

The Roth is a good choice even though there is no up-front tax deduction like there is with a Traditional IRA. A young person's income is generally low so they would not benefit from the deduction.

The Roth IRA offers the advantage (once the money has been in the account for five years) of all qualified earnings withdrawals being tax-free (see article this page – *The Most Often Asked Questions About A Roth IRA* – concerning early withdrawal penalties).

Other Considerations

College Financial Aid - some universities offering non-federal financial aid may apply their own requirements as to how they will consider these assets in relation to tuition assistance.

Encourage the young people in your family to start saving as soon as they start earning money, even if it is only from a summer or part-time job during school. •

IRA Q&A

Q: If I inherited an IRA, what are my options if I am one of several beneficiaries?

A: As long as separate accounting is properly established by December 31 of the year following the year of the IRA holder's death, each beneficiary can set up payment based on his or her own life expectancy, instead of using the oldest beneficiary's life expectancy. This can potentially maximize the payout period.

Q: Do I need an IRA if I already have a company retirement plan?

A: Over 40% of retired Americans say they didn't save enough for retirement. An IRA is an excellent way to have savings *in addition* to Social Security and a company retirement plan. And with an IRA, you have a much higher degree of control over your investment choices.

“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 IRA contributions over and above the maximum limits as follows:

For The Years 2007 & 2008:
$1,000

Q&A: Roth IRA - *continued from page 3*

Can Funds Be Rolled Over From One Roth IRA To Another Roth IRA?

Yes, you may transfer or rollover from one Roth IRA to another Roth IRA tax-free and regardless of your adjusted gross income.

If I Contribute To A Roth IRA, Will It Affect The Amount That I Can Contribute To My Employer-Sponsored Retirement Plan?

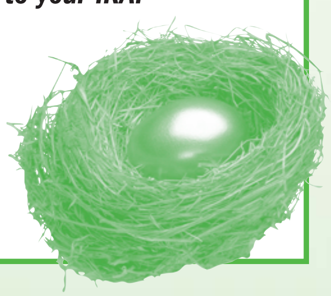
No. The amount you contribute to your employer sponsored plan will not be affected by your Roth IRA contribution.

Can My Roth IRA Be Inherited?

Yes. When you die, the entire proceeds can be passed on tax-free to your beneficiaries, providing your Roth IRA meets the five-year test. •

IRA Fast Fact

Tax refunds directly deposited to your IRA! Starting for 2007, you can have your federal income tax refund deposited directly to your IRA. This makes saving for retirement with an IRA easier and more convenient than ever before!



How Much Do You Know About IRAs? Test Your Knowledge - True Or False...

1. A transfer or rollover affects current contributions to an IRA? ________
2. The penalty on the amount not taken to make the full required minimum distribution (RMD) for a Traditional IRA after age 70½ is 50%. ________
3. Roth IRA owners are subject to required minimum distribution rules at age 70½. ________
4. A spousal IRA is an IRA set up for a spouse with little or no income. The spousal contribution can be up to $4,000 for tax year 2007 or if 50 years of age or older, $5,000 and for tax year 2008, $5,000 or if 50 years of age or older, $6,000. ________
5. An IRA owner has to make his/her annual contribution in one lump sum. ________
6. IRA contributions including spousal IRAs are voluntary. Making a contribution this year does not obligate you to make a contribution in later years. ________
7. A married couple both 50 years of age, can contribute up to $10,000 for tax year 2007 and $12,000 for tax year 2008. ________
8. There is a limit to the number of IRAs an individual can have. ________
9. Alimony is not considered earned income when determining an IRA owner’s eligibility to contribute to an IRA. ________
10. If you are not an active participant in an employer-sponsored pension or profit sharing plan, you can deduct 100% of your Traditional IRA contribution regardless of your income. ________
11. Upon your death, a Roth IRA allows your spousal beneficiary to continue qualified tax-free accumulation and tax-free withdrawals from the account over his or her life expectancy. ________

Answers

1. False. Transferring or rolling over funds from one account to another does NOT affect the amount of your annual IRA contribution. You may still contribute the full amount allowed by law.
2. True.
3. False. Roth IRA owners are not subject to required minimum distribution rules.
4. True.
5. False. An IRA owner may choose to contribute periodically rather than in one lump sum.
6. True.
7. True.
8. False. There is no limit. An individual may have multiple IRAs, though the total contribution to any or all IRA accounts in any given year may not exceed $4,000 ($5,000 if 50 or older) for tax year 2007 and $5,000 ($6,000 if 50 or older) for tax year 2008.
9. False. Taxable alimony is considered earned income.
10. True.
11. True.

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.*