

## Individual Retirement Accounts

You're probably already familiar with individual retirement accounts (IRAs). These tax-deferred accounts have been around since 1984 to help working people save for retirement.

Most IRAs allow you to direct how funds in your account are invested. You may be able to invest the funds in a variety of ways, including individual stocks and bonds, annuities, and mutual funds, though there are some restrictions on how you invest your IRA funds. Also, as long as you don't contribute more than your annual limit (see chart below), you may diversify your IRA funds among different types of investments. Additionally, you cannot use your life insurance policies to fund your IRA.

There are two types of IRAs - traditional and Roth.

**Traditional IRA:** The earnings on your IRA are taxed-deferred. Depending on how much money you earn, you may be eligible to deduct your IRA contribution from your gross income for tax purposes. But, there are penalties for withdrawing money from your traditional IRA before you reach the age of 59 1/2, and withdrawals will be taxed as ordinary income.

**Roth IRA:** This type of IRA was named after former Senator William Roth of Delaware, who championed the Taxpayer Relief Act of 1997. Eligibility is determined by the amount of your annual income. You may not deduct contributions to your Roth IRA from your taxable income, but growth in your Roth IRA is tax-free.

If you have had your Roth IRA for more than five years, you may be able to withdraw earnings from your Roth IRA without paying penalties and/or taxes, if: you have reached the age of 59 1/2, you become fully disabled, or you are using the money to buy your first home (\$10,000 life-time limit). You may also withdraw from your Roth IRA to pay for college -- you will have to pay taxes on that withdrawal, but you will not be subject to the penalty for premature withdrawal.

In some cases, you may convert your traditional IRA to a Roth IRA, but you will have to pay income taxes on the converted amount not previously taxed. As with any retirement investment, you should consult a financial professional to learn all the details.

<b>Traditional and Roth IRA Annual Contribution Limits</b>		
<b><u>Year</u></b>	<b><u>Normal Limit</u></b>	<b><u>Catch-Up Bonus</u> (if you are age 50 or older)</b>
2003	\$3,000	\$500
2004	\$3,000	\$500
2005	\$4,000	\$500
2006	\$4,000	\$1,000
2007	\$4,000	\$1,000
2008	\$5,000	\$1,000
2009 +	Indexed for inflation	\$1,000