

IRAs Compared

There are substantial differences between a traditional (nondeductible) IRA, a traditional (deductible) IRA and a Roth IRA. The table below compares and contrasts these various types of individual retirement arrangements.

Item	Traditional Nondeductible IRA	Traditional Deductible IRA	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	Lesser of \$3,000 ² (\$6,000 ³ for a married couple) or 100% of compensation.		
Is the contribution deductible?	No	<p>Yes, if participant is not covered by a qualified plan. If one spouse is covered by a qualified plan, the nonparticipant spouse may make a deductible contribution, if filing jointly and adjusted gross income (AGI) is \$150,000 or less. Deduction phased out for AGI between \$150,000 and \$160,000.</p> <p>If participant is covered by a qualified plan, fully deductible if AGI is \$40,000 or less, if single, and \$60,000 or less, if married.⁴</p> <p>Not deductible if AGI is \$50,000 or more, if single, and \$70,000 or more, if married.</p> <p>Deduction phased out ratably between above limits.⁴</p>	No

¹ The maximum contribution to a Roth IRA is phased out for single taxpayers with adjusted gross income (AGI) between \$95,000 and \$110,000. For married couples filing jointly, the phaseout range is an AGI of \$150,000 to \$160,000. For married individuals filing separately, the phaseout range is an AGI of \$0 to \$10,000.

² This amount applies to 2002, 2003 and 2004. In 2005 – 2007 it will be \$4,000, and in 2008 and thereafter it will be \$5,000. If an IRA participant is age 50 or older, he or she may contribute and deduct an additional \$500 (\$1,000 if the spouse is also over age 50). Beginning in 2006, this additional amount is increased to \$1,000 (\$2,000 if spouse is also over 50).

³ This amount applies to 2002, 2003 and 2004. In 2005 – 2007 it will be \$8,000, and in 2008 and thereafter it will be \$10,000.

⁴ These are 2003 limits. For 2002 the phase-out ranges were (1) MFJ – AGI of \$54,000 - \$64,000; (2) Single – AGI of \$34,000 - \$44,000; (3) MFS – AGI of \$0 - \$10,000. These limits will increase periodically until they reach an AGI of \$80,000 - \$100,000 for MFJ in 2007. For single taxpayers, the limits will increase to an AGI of \$50,000 - \$60,000 in 2005. The phase-out range for individuals using the MFS filing status will remain an AGI of \$0 - \$10,000.

Continued...

IRAs Compared

Item	Traditional Nondeductible IRA	Traditional Deductible IRA	Roth IRA
Are earnings currently taxed?	No	No	No
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 income tax
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 expenses	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 life of owner.
By when must an IRA be set up and funded?	Plan must be set up and funded by April 15 of calendar year following year to which the contribution applies.		

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. Also, for traditional IRA, the penalty is waived if distribution is annuitized.

Continued...

IRAs Compared

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.¹ 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: \$3,000
- Marginal income tax bracket – pre-retirement: 27.00%
- Marginal income tax bracket – post-retirement: 27.00%
- Tax-deferred growth rate: 8.00%
- After-tax growth rate: 5.84%
- 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	\$4,110	\$3,000	\$4,110
3. Income taxes payable	-\$1,110	-\$0	-\$1,110
4. Net annual contribution to IRA	\$3,000	\$3,000	\$3,000
5. Annual tax savings to taxable account	0	\$810	\$0
Total net annual savings	\$3,000	\$3,810	\$3,000
B. At Retirement			
1. Net accumulation in the IRA ²	\$148,269	\$148,269	\$148,269
2. Future value of tax savings	\$0	\$30,999	\$0
3. Total available before taxes	\$148,269	\$179,268	\$148,269
4. Income taxes payable	-\$23,833	-\$40,033	-\$0
Net after income taxes	\$124,436	\$139,236	\$148,269

¹ Based on federal law. State or local law may differ.

² Assumes annual contributions are made at the beginning of each year.