Preparing for Your Retirement: An IRA Review

Prepared for: **Great Southern Bank**

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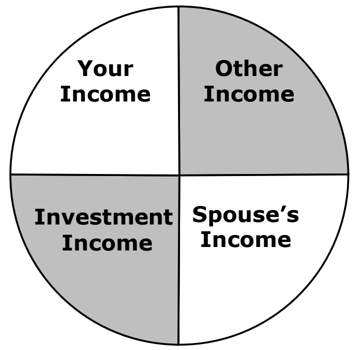
How much of your earning power will be available for your use when you retire? What will happen to your standard of living when your income ceases at retirement? Are you currently saving for retirement on a tax-advantaged basis?

Your Earning Power

Your earning power - your ability to earn an income - is your most valuable asset.

Earning Power:



Few people realize that a 30-year-old couple will earn 3.5 million dollars by age 65 if their total family income averages $100,000 for their entire careers, without any raises.

How Much Will You Earn in a Lifetime?

Years to Age 65	Your Future Earning Power If Your Family Income Averages:			
	$50,000	$100,000	$250,000	$500,000
40	$2,000,000	$4,000,000	$10,000,000	$20,000,000
35	1,750,000	3,500,000	8,750,000	17,500,000
30	1,500,000	3,000,000	7,500,000	15,000,000
25	1,250,000	2,500,000	6,250,000	12,500,000
20	1,000,000	2,000,000	5,000,000	10,000,000
15	750,000	1,500,000	3,750,000	7,500,000
10	500,000	1,000,000	2,500,000	5,000,000
5	250,000	500,000	1,250,000	2,500,000

How much of your earning power do you pay in taxes?

What will happen to your standard of living when your income ceases at retirement?

Sources of Retirement Income

When you retire and your earning power ceases, you will have to depend on three primary sources for your retirement income:

Social Security	According to the Social Security Administration, the average retired worker in 2010 receives an estimated $1,161 monthly benefit, about 40% of average pre-retirement income. As pre-retirement income increases, however, the percentage replaced by Social Security declines.
Employer-Provided Plans	You may be eligible to participate in a retirement plan established by your employer and receive pension income at your retirement.
Personal Retirement Savings	For many people, there is a gap between the retirement income they can expect from Social Security and employer-provided plans and their retirement income objectives. Personal retirement savings represent the only way to bridge that gap!

If sufficient retirement income is not available,

will you defer your retirement age,

or will you choose to reduce your standard of living?

Important Facts About Social Security Retirement Benefits

- **The Social Security Normal Retirement Age, currently age 66 for those people born between 1943 and 1954, is gradually increasing to age 67 for persons born after 1954.**

- **Early retirement results in a permanent reduction in the Social Security retirement benefit.** For example, the Social Security retirement benefit of a worker born between 1943 and 1954 who retires early at age 62 will be reduced by 25%.

- **According to the Social Security Administration:**

  - The **maximum** Social Security retirement benefit for a worker retiring at full retirement age in 2010 is $2,346 monthly.

  - The **average** Social Security benefit for all retired workers in 2010 is $1,161.

- **The Social Security spousal retirement benefit is limited to a maximum of 50% of the retired worker's benefit.** The spousal retirement benefit is reduced if the worker retires before his or her full retirement age.

- **How much do you want to rely on a source of retirement income over which you have no control? Consider this quote from a *Time* magazine article titled "Social Insecurity":**

  "For government to pay pensions to the advancing tide of baby boomers will almost certainly require stunning benefit reductions or huge tax increases. Most likely both. After years of fiscal and political fecklessness, an explosive conclusion."

  Question: When was this article published?

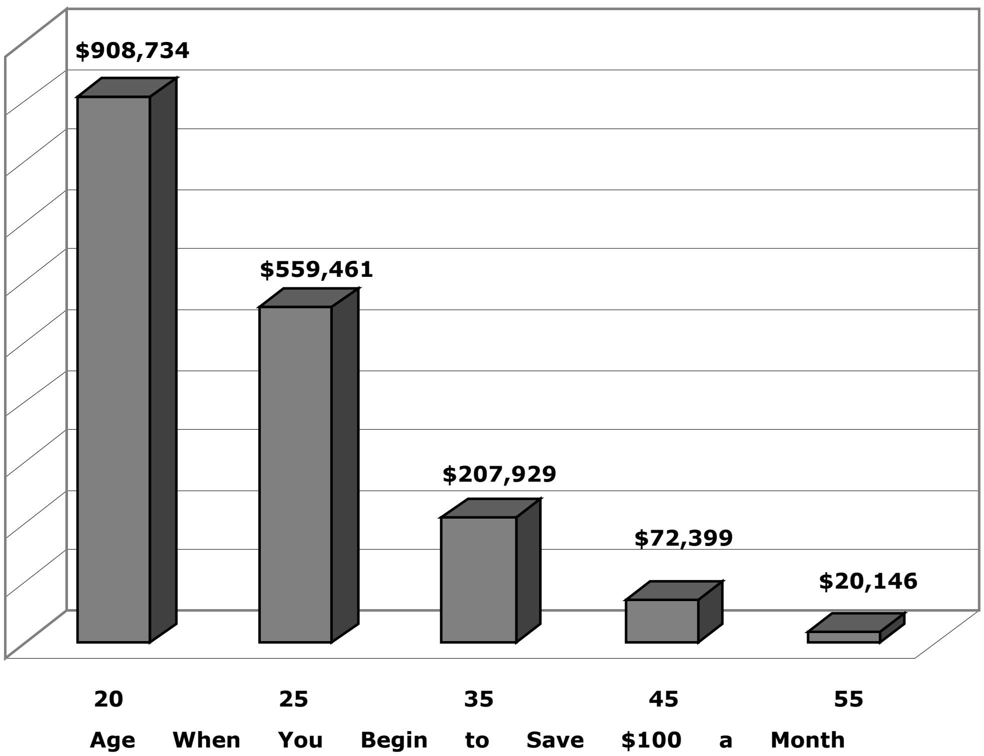
  Answer: March 12, 1995, although the same statement could easily apply today, in the absence of any reform to the Social Security system.

If You Wait…You Lose!

"The eighth wonder of the world is compound interest."
-- Albert Einstein

Delaying retirement savings can keep you from realizing your retirement dreams!

If $100 a month is saved, what will the savings be worth at age 65, assuming a hypothetical 10% annual rate of return*?



* This is a hypothetical illustration only and is not indicative of any particular investment or investment performance. It does not reflect the fees and expenses associated with any particular investment, which would reduce the performance shown in this hypothetical illustration if they were included. In addition, rates of return will vary over time, particularly for long-term investments.

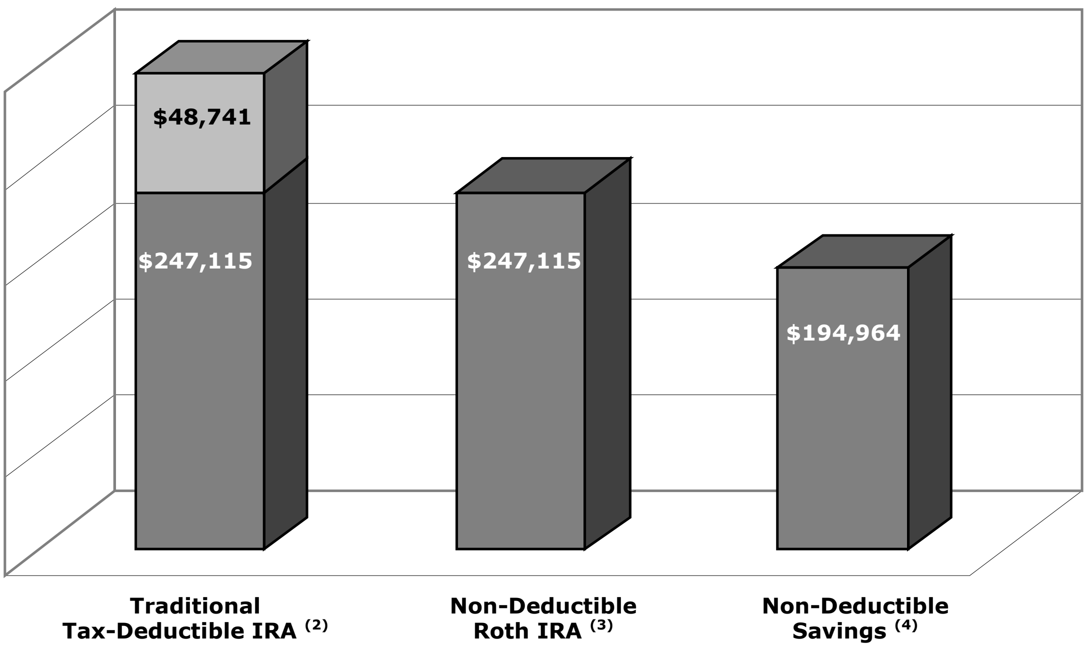
A Potential Solution Using an IRA

Those who qualify for a traditional **tax-deductible IRA** can use money that would otherwise be paid in taxes to establish a retirement fund that accumulates tax deferred. Taxes, however, must be paid as distributions are received from a tax-deductible IRA. A second alternative for those who qualify is the **Roth IRA**. While contributions to a Roth IRA are not tax deductible, the retirement fund accumulates tax deferred and distributions are received free of income tax.

Either a traditional tax-deductible IRA or a non-deductible Roth IRA can produce results superior to a savings plan whose growth is taxed.

20 Year Results (1)

8% Hypothetical Annual Rate of Return/$5,000 Annual Contribution/25% Income Tax Bracket



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(2) **Traditional Tax-Deductible IRA:** Assumes the $1,250 annual tax savings are invested in an account whose growth is taxed each year. If the $247,115 value of the tax-deductible IRA is surrendered at the end of the 20th year, the principal amount remaining after payment of income tax is $185,336 at a 25% rate (assumes no penalty tax is assessed). When added to the future value of the tax savings ($48,741), on which income tax has already been paid, the after-tax value of the IRA plus the future value of the tax savings results in total cash available of $234,077.

(3) **Non-Deductible Roth IRA:** If surrendered at the end of the 20th year, the full principal amount of $247,115 is available free of income tax (assumes no penalty tax is assessed).

(4) **Non-Deductible Savings:** Assumes the income tax is paid out of investment earnings each year, meaning that the full principal amount of $194,964 is available free of income tax at the end of the 20th year.

Traditional IRA vs. Roth IRA…A 2010 Comparison

Eligible individuals can contribute to a tax-deductible traditional IRA, to a non-deductible Roth IRA or to a combination of the two. However, no more than a combined total of $5,000/$6,000 if age 50 or older in 2010 (or 100% of earned income if less) may be contributed to these accounts each year.

Individuals who are not eligible for deductible contributions to a traditional IRA or to make contributions to a Roth IRA may still make non-deductible contributions to a traditional IRA and receive the benefits of tax-deferred growth.

Which type of IRA is best for you depends on your situation, needs and objectives. The comparison that follows is designed to help you make an informed decision.

	Traditional IRA (tax deductible)	Roth IRA	Traditional IRA (non-deductible)
Deductible Contributions	Yes	No	No
Limit on Contributions	Yes (lesser of $5,000; $6,000 if age 50 or older; or 100% of earned income)	Yes (lesser of $5,000; $6,000 if age 50 or older; or 100% of earned income)	Yes (lesser of $5,000; $6,000 if age 50 or older; or 100% of earned income)
Tax-Deferred Growth	Yes	Yes	Yes
Tax-Free Distributions	No (fully taxable)	Yes (if qualified distributions)	No (partially taxable)
Age Limits	Yes (contributions cannot be made after age 70-1/2)	No	Yes (contributions cannot be made after age 70-1/2)
Income Limits	No	Yes (contribution phased out if adjusted gross income exceeds specified limits)	No
Minimum Distribution Requirement	Yes (distributions must begin by age 70-1/2)	No	Yes (distributions must begin by age 70-1/2)
Bankruptcy Protection	Yes, up to $1 million for all IRAs	Yes, up to $1 million for all IRAs	Yes, up to $1 million for all IRAs

Which Is Better...the Traditional IRA or the Roth IRA?

Depending on your situation and objectives, the tax-free distribution feature of the Roth IRA may produce superior overall results when compared to a traditional IRA, which may provide for tax-deductible contributions, but taxable distributions. In choosing between a traditional IRA and a Roth IRA, you may find it helpful to evaluate both the accumulation period and the distribution period results of the respective plans.

Traditional vs. Roth IRA

Accumulation Period: $5,000 Annual Contribution Each Year for 20 Years
Values in 20 Years (1)

8% Hypothetical Annual Rate of Return — **25% Income Tax Bracket**

	Total IRA Value	Deductible IRA Tax Savings (2)	Total Cash Available
Traditional IRA (deductible contributions)	$247,115	$48,741	$295,856
Traditional IRA (non-deductible contributions)	$247,115	-----	$247,115
Roth IRA (non-deductible contributions)	$247,115	-----	$247,115

Distribution Period:
Total Cash Available Distributed in Equal Amounts Over 20 Years (3)

8% Hypothetical Annual Rate of Return — **25% Income Tax Bracket**

	Total Cash Available	Annual After-Tax Distribution	Total Distributions
Traditional IRA (deductible contributions; fully taxable IRA distributions)	$295,856	$21,535	$430,707
Traditional IRA (non-deductible contributions; partially taxable distributions)	$247,115	$18,729	$374,581
Roth IRA (non-deductible contributions; tax-free distributions)	$247,115	$23,305	$466,097

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(2) Assumes that the $1,250 annual tax savings on the $5,000 traditional deductible IRA contribution (25% tax bracket) are invested in a taxable account.

(3) Assumes that principal and interest are distributed in equal annual installments over 20 years.

Understanding Traditional IRAs

Eligibility:

Single Person: A single person who is under age 70-1/2 and has earned income may establish and contribute up to the lesser of $5,000 or 100% of earned income to an IRA.

Married Couple: Up to $5,000 can be contributed to an IRA for each spouse, even if one spouse has no earned income, provided that the combined compensation of both spouses is at least equal to the combined IRA contribution (maximum of $10,000).

Older Workers: Workers who are age 50 or older may contribute an additional $1,000 to an IRA in 2010, for a total of $6,000, provided that earned income is at least equal to the IRA contribution.

Deductibility:

IRA contributions are fully deducted from income, **unless** you and your spouse are active participants in an employer-sponsored retirement plan, including a tax-deferred annuity (TDA). In that event, the IRA deduction is gradually phased out as follows:

	Maximum IRA Deductions (2010 Tax Year)				
	Joint Taxpayers			Single Taxpayers	
Adjusted Gross Income	One IRA	Two IRAs	Age 50 or Older	One IRA	Age 50 or Older
$56,000 & under	$5,000	$10,000	$6,000	$5,000	$6,000
$61,000	$5,000	$10,000	$6,000	$2,500	$3,000
$66,000	$5,000	$10,000	$6,000	$ 0	$ 0
$89,000	$5,000	$10,000	$6,000	$ 0	$ 0
$99,000	$2,500	$5,000	$3,000	$ 0	$ 0
$109,000 & above	$ 0	$ 0	$ 0	$ 0	$ 0

The spouse of an active participant in an employer-sponsored retirement plan who is not covered by his or her own plan can make fully-deductible IRA contributions, if the couple's adjusted gross income is below $167,000 in 2010 and partially-deductible IRA contributions if between $167,000 and $177,000 in 2010.

Contribution Deadline:

An IRA can be established and contributions made between January 1 of the current tax year and the date the income tax return for the current year is filed (no later than April 15th of the following year).

Traditional IRA Taxation

During Life:

Contributions (2010): Deductible up to $5,000 (up to $10,000 for a married couple; additional $1,000 contribution available to workers age 50 and older in 2010) unless the individual is an active participant in an employer-sponsored qualified retirement plan, in which case the tax deduction is gradually phased out. In 2010, this phase-out begins at adjusted gross incomes in excess of $89,000 for married couples filing jointly ($56,000 for single taxpayers) and ends at $109,000 for married couples ($66,000 for single taxpayers), at which point there is no IRA deduction.

The spouse of an active participant in an employer-sponsored retirement plan who is not covered by his or her own plan can make fully-deductible IRA contributions, if the couple's adjusted gross income is below $167,000 and partially-deductible IRA contributions if between $167,000 and $177,000 in 2010.

Growth: The earnings on IRA contributions (whether deductible or non-deductible) accumulate tax-free until distributed.

Distributions: IRA distributions are taxed under the rules of IRC Sec. 72. This means that the taxpayer is entitled to recover any non-deductible IRA contributions tax-free when distributions begin. Other than this tax-free return of the "investment in the contract," all IRA distributions are includable in gross income in the year received. In addition:

- **Premature distributions** made prior to age 59-1/2 are subject to a 10% excise or "penalty" tax in addition to the regular income tax on the amount of the distribution. (Exceptions to the penalty tax include payments made on account of death, disability, to cover certain medical expenses, to pay qualified higher education expenses, for the purchase of a first home ($10,000 lifetime limit), or in a series of substantially equal periodic payments over the taxpayer's life expectancy.)
- **Minimum distributions** from an IRA must begin by April 1 of the year after the year in which the taxpayer attains age 70-1/2, or a 50% excise tax is levied on the difference between what was paid out and what should have been paid out under IRA minimum distribution rules.

At Death:

Estate Taxation: The value of the IRA is included in the gross estate of the deceased owner.

Income Taxation: Traditional IRA distributions received by a beneficiary after the traditional IRA owner's death are taxed in the same manner as if received by the owner.

Understanding Roth IRAs

Eligibility: (2010)

Single taxpayers with adjusted gross income of up to $105,000 or married couples filing jointly with adjusted gross income of up to $167,000 are eligible to contribute the full $5,000 annually to a Roth IRA. Workers who are age 50 or older may contribute an additional $1,000 to a Roth IRA in 2010, for a total of $6,000.

The contribution amount is gradually reduced to zero for adjusted gross income levels between $105,000 and $120,000 for single taxpayers, and between $167,000 and $177,000 for couples.

Unlike regular IRAs, contributions to a Roth IRA can be made even after age 70-1/2.

Deductibility:

Contributions to a Roth IRA are non-deductible. Instead, the tax advantages of a Roth IRA are "backloaded." Earnings on Roth IRA contributions accumulate without tax and distributions may be received tax free.

Qualified Distributions:

Qualified distributions from a Roth IRA are not included in gross income and are not subject to the additional 10% penalty tax for premature distributions. To be a tax-free qualified distribution:

- The distribution must occur more than five years after the individual first contributed to the Roth IRA; and
- The individual must be at least 59-1/2 years old, disabled, deceased or the funds must be used to purchase a first home ($10,000 lifetime limit).

Converting from a Traditional IRA to a Roth IRA:

Prior to 2010, only taxpayers with adjusted gross incomes not exceeding $100,000 could convert a traditional IRA into a Roth IRA, where IRA assets will continue to accumulate tax-deferred, and be eligible to receive tax-free Roth IRA taxation when distributed. Beginning in 2010, however, the $100,000 adjusted gross income ceiling for converting a traditional IRA to a Roth IRA is eliminated.

Income taxes must be paid on the amount that is converted from a traditional IRA to a Roth IRA, but there is no premature distribution penalty tax.

Roth IRA Taxation

During Life:

Contributions: Not deductible.

Growth: The earnings on Roth IRA contributions accumulate tax-free until distributed.

Distributions: Qualified distributions from a Roth IRA are received free of income tax and are not subject to the 10% premature withdrawal penalty tax. Roth IRA distributions that do not meet the qualified distribution requirements will be included in income to the extent that the distribution represents earnings on Roth IRA contributions and may be subject to a 10% premature withdrawal penalty tax.

	Distribution Made Within 5 Years of First Roth IRA Contribution		Distribution Made More Than 5 Years After First Roth IRA Contribution	
Reason for Distribution:	**Earnings Taxable**	**Subject to 10% Penalty**	**Earnings Taxable**	**Subject to 10% Penalty**
On or after age 59-1/2	Yes	No	No	No
Before age 59-1/2 (exceptions follow):	Yes	Yes	Yes	Yes
➢ Death	Yes	No	No	No
➢ Disability	Yes	No	No	No
➢ First-time homebuyer ($10,000 limit)	Yes	No	No	No
➢ Substantially equal periodic payments	Yes	No	Yes	No
➢ Medical expenses above 7.5% of adjusted gross income	Yes	No	Yes	No
➢ Health insurance premiums paid by the unemployed	Yes	No	Yes	No
➢ Higher education expenses	Yes	No	Yes	No

There is no requirement that distributions from a Roth IRA begin by age 70-1/2.

At Death:

Estate Taxation: The value of a Roth IRA is included in the gross estate of the deceased owner.

Income Taxation: Roth IRA distributions received by a beneficiary after the Roth IRA owner's death are taxed in the same manner as if received by the owner.

Can Funds Be Transferred Between Traditional IRAs and Between Roth IRAs?

Yes, funds can be moved from a **traditional IRA to another traditional IRA** or from a **Roth IRA to another Roth IRA** without any taxes or penalty, assuming certain requirements are met:

- The trustee of the existing IRA either transfers the funds directly to the trustee of the receiving IRA; **or**
- The funds in the existing IRA are distributed to you and you roll them over to the receiving IRA within 60 days of receiving the distribution.
- Only one rollover from a traditional IRA to another traditional IRA, or from a Roth IRA to another Roth IRA can be made in any one-year period.

Can Funds Be Transferred From a Roth IRA to a Traditional IRA?

No, funds cannot be moved from a **Roth IRA to a traditional IRA**.

Can Funds Be Transferred From a Traditional IRA to a Roth IRA?

Yes. Prior to 2010, this option was not available to taxpayers with adjusted gross incomes of $100,000 or more, or to married taxpayers who filed separately. Beginning in 2010, however, these restrictions are removed and all taxpayers have the option of rolling funds over from traditional qualified plans into a Roth IRA. In addition, for Roth IRA conversions that take place in 2010, taxpayers can recognize the conversion income in 2010 or average it over the next two years on their 2011 and 2012 tax returns.

After careful review, you may decide that a Roth IRA is a better retirement savings option for you than a traditional IRA. In this event, if you already have funds in a traditional IRA, you may want to consider moving those funds into a Roth IRA.

Advantages:

- Qualified distributions from a Roth IRA are received free of income tax.
- If non-qualified distributions are taken, the portion of the distribution represented by traditional IRA contributions is not taxable.
- There is no minimum age by which you must begin receiving distributions from a Roth IRA.
- The premature distribution penalty tax does not apply to amounts converted or rolled over from a traditional IRA to a Roth IRA.
- Qualified distributions from a Roth IRA are not included in determining the taxable portion of any Social Security benefits being received.

Disadvantages:

- The amount that is converted or rolled over to the Roth IRA is subject to federal income tax in the year of the conversion or roll over, to the extent that the funds consist of earnings and tax-deductible contributions to the traditional IRA. For conversions made in 2010, taxpayers will be able to recognize the conversion income in 2010 or average it over the next two years on their 2011 and 2012 tax returns.
- In the year of the conversion or roll over, this taxable income can serve to increase the taxable portion of any Social Security benefits being received.
- The premature distribution penalty tax applies to any converted or rolled over amounts distributed from the Roth IRA during the five-year period following the conversion or roll over.

You should seek professional tax advice before converting or rolling over funds from a traditional IRA to a Roth IRA in order to avoid unforeseen and/or negative tax and, possibly, creditor protection consequences.

Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, neither VSA, L.P. nor The National Underwriter Company is engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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