

SMITH HAYES

Financial Services Corporation

Rules of the Roth IRA Payroll Deduction Plan

- Roth IRA contributions are not tax deductible because contributions are made with after tax dollars.
 - Earned income equal to or greater than contribution is required.
 - For 2009:
 - \$5,000 maximum contribution per individual per year.
 - \$5,000 per individual is the combined limit for all IRAs (Education IRA not included).
 - \$5,000 spousal account contribution is allowed regardless of earned income.
 - Anyone age 50 or older can make an additional catch-up contribution of \$1,000.
- Roth IRA earnings grow tax-free. (Taxes may apply to earnings taken in a non-qualified distribution and may be subject to a 10% penalty.)
- Contributions (principal) may be withdrawn tax-free and penalty-free at any time.
- Qualified distributions of earnings are penalty-free and tax-free after **5 years** for any of the following:
 - Account holder reaches age 59-1/2.
 - Death of account holder causes distribution to beneficiary.
 - Account holder becomes disabled.
 - Account holder takes distribution for a first time home purchase (\$10,000 maximum).
 - The following types of distributions will be penalty-free, but account earnings will be taxed:
 - The distribution is for certain medical bills.
 - Distribution used for health insurance premiums during unemployment lasting at least 12 weeks.
 - Distributed for post-secondary education expenses.
- General Rules
 - For 2009, Adjusted Gross Income limit for single taxpayers is \$105k, with limited participation up to \$120k.
 - For 2009, Adjusted Gross Income limit for couples is \$166k, with limited participation to \$176k.
 - Employer plan participation (i.e. 401(k) or Profit Sharing) is allowed without restriction on Roth IRA participation.
 - Taxpayer can delay initial distribution beyond age 70-1/2 without penalties.
 - Taxpayer can continue contributions beyond age 70-1/2 with earned income.
 - 5 year waiting period for withdrawal of earnings begins in the tax year when the first contribution is made.

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