

AMERICAN-AMICABLE LIFE INSURANCE COMPANY OF TEXAS
Waco, Texas

**TRADITIONAL AND ROTH
INDIVIDUAL RETIREMENT ANNUITY
DISCLOSURE STATEMENT**

This Disclosure Statement explains the rules governing both a Traditional IRA and a Roth IRA. The term IRA will be used in this Disclosure Statement to refer to both a Traditional IRA and a Roth IRA (under Internal Revenue (Code) Sections 408(a) and 408(b)) unless specified otherwise.

RIGHT TO REVOKE YOUR IRA:

If you receive this Disclosure Statement at the time you establish your IRA, you have the right to revoke your IRA within the right to examine period referenced on the first page of your contract. If revoked, you are entitled to a return of the amount described. You may make this revocation only by delivering a written notice or returning the contract to the field representative who delivered it or to the Home Office of American-Amicable Life Insurance Company of Texas at the address listed below.

If you have any questions about the procedure for revoking your IRA, please call American-Amicable at the telephone number listed below.

American-Amicable Life Insurance Company of Texas
P.O. Box 2549
Waco, Texas 76702-2549
Telephone: (254) 297-2777

REQUIREMENTS OF AN IRA:

- A. *CASH PREMIUMS* - Your Premium must be in cash.
- B. *MAXIMUM PREMIUM* - The total amount of the Premiums to your IRA for any taxable year cannot exceed the lesser of 100 percent of your compensation or \$3,000 for years 2002-2004, \$4,000 for years 2005-2007, and \$5,000 for 2008, with possible cost-of-living adjustments in years 2009 and beyond. If you also maintain a Roth IRA, the maximum Premium to your Traditional IRAs (i.e., IRAs subject to Code sections 408(a) or 408(b)) is reduced by any Premiums you make to your Roth IRA. Your total annual Premiums to all Traditional IRAs and Roth IRAs cannot exceed the lesser of the dollar amounts described above or 100 percent of your compensation.

Your Roth IRA Premium is further limited if your modified adjusted gross income (MAGI) equals or exceeds \$150,000 if you are a married individual filing a joint income tax return, or equals or exceeds \$95,000 if you are a single individual. Married individuals filing a joint income tax return with MAGI equaling or exceeding \$160,000 may not fund a Roth IRA. Single individuals with MAGI equaling or exceeding \$110,000 may not fund a Roth IRA. Married individuals filing a separate income tax return with MAGI equaling or exceeding \$10,000 may not fund a Roth IRA.

If you are married filing a joint income tax return and your MAGI is between \$150,000 and \$160,000, your maximum Roth IRA Premium is determined as follows: (1) Subtract your MAGI from \$160,000; (2) divide the difference by \$10,000; and (3) multiply the result in step (2) by the maximum allowable Premium for the year, including catch-up Premiums if you are age 50 or older. For example, if you are age 30 and your MAGI is \$155,000, your maximum Roth IRA Premium for 2003 is \$1,500. This amount is determined as follows: $[(\$160,000 \text{ minus } \$155,000) \text{ divided by } \$10,000] \text{ multiplied by } \$3,000$.

If you are single and your MAGI is between \$95,000 and \$110,000, your maximum Roth IRA Premium is determined as follows: (1) Subtract your MAGI from \$110,000; (2) divide the difference by \$15,000; and (3) multiply the result in step (2) by the maximum allowable Premium for the year, including catch-up Premiums if you are age 50 or older.

For example, if you are age 30 and your MAGI is \$98,000, your maximum Roth IRA Premium for 2003 is \$2,400. This amount is determined as follows: [(\$110,000 minus \$98,000) divided by \$15,000] multiplied by \$3,000.

- C. *PREMIUM ELIGIBILITY* - You are eligible to make a regular Premium payment to your Traditional IRA if you have compensation and have not attained age 70½ by the end of the taxable year for which the Premium is made.

You are eligible to make a regular Premium payment to your Roth IRA, regardless of your age, if you have compensation and your MAGI is below the maximum threshold. Your Roth IRA Premium is not limited by your participation in a retirement plan, other than a Traditional IRA.

- D. *CATCH-UP PREMIUMS* - If you are age 50 or older by the close of the taxable year, you may make an additional Premium payment to your IRA. The maximum additional Premium is \$500 for years 2002-2005 and \$1,000 for years 2006 and beyond.

- E. *NONFORFEITABILITY* - Your interest in your IRA is nonforfeitable.

- F. *COMMINGLING ASSETS* - The assets of your IRA cannot be commingled with other property.

- G. *LIFE INSURANCE* - No portion of your IRA may be invested in life insurance contracts.

- H. *COLLECTIBLES* - You may not invest the assets of your IRA in collectibles (within the meaning of Code section 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or any other tangible personal property specified by the Internal Revenue Service (IRS).

- I. *BENEFICIARY PAYOUTS* - Your Designated Beneficiary(ies) is determined based on the Beneficiary(ies) designated as of the date of your death, who remains your Beneficiary(ies) as of September 30 of the year following the year of your death. If you die,

1) on or after your required beginning date, distributions must be made to your Beneficiary(ies) under the contract option chosen. If distributions are not made in the form of an annuity, distributions must be made over the longer of the single life expectancy of your Designated Beneficiary(ies), or your remaining life expectancy. If a Beneficiary(ies) other than an individual or qualified trust as defined in the Regulations is named, you will be treated as having no Designated Beneficiary of your IRA for purposes of determining the distribution period. If there is no Designated Beneficiary of your IRA, distributions will commence using your single life expectancy, reduced by one in each subsequent year.

2) before your required beginning date, the entire amount remaining in your account will, at the election of your Designated Beneficiary(ies), either

(i) be distributed by December 31 of the year containing the fifth anniversary of your death, or

(ii) be distributed over the remaining life expectancy of your Designated Beneficiary(ies).

Your Designated Beneficiary(ies) must elect either option (i) or (ii) by December 31 of the year following the year of your death. If no election is made within 60 days of the date we receive due proof of death, payment may be made in one sum. In the case of distributions under option (ii), distributions must commence by December 31 of the year following the year of your death. If your spouse is the Designated Beneficiary, distributions need not commence until December 31 of the year you would have attained age 70½, if later. If a Beneficiary(ies) other than an individual or qualified trust as defined in the Regulations is named, you will be treated as having no Designated Beneficiary(ies) of your IRA for purposes of determining the distribution period. If there is no Designated Beneficiary of your IRA, the entire IRA must be distributed by December 31 of the year containing the fifth anniversary of your death.

A spouse who is the sole Designated Beneficiary of your entire IRA may elect to redesignate your IRA as his or her own. Alternatively, the sole spouse Beneficiary will be deemed to elect to treat your IRA as his or her own by either (1) making Premiums to your IRA or (2) failing to timely remove a required minimum distribution from your IRA.

Regardless of whether or not the spouse is the sole Designated Beneficiary of your IRA, a spouse Beneficiary may roll over his or her share of the assets to his or her own IRA.

To the extent the IRS permits use of the required minimum distribution rules provided in the 2002 Final and Temporary Regulations under Code sections 408 and 401(a)(9), those rules, as specifically described in the Regulations, and as summarized in the applicable IRS Publication 590 Individual Retirement Arrangement, may continue to be applied. These transactions are often complex. If you have any questions regarding required minimum distributions, please see a competent tax advisor.

INCOME TAX CONSEQUENCES OF ESTABLISHING AN IRA

A. IRA DEDUCTIBILITY - No deduction is allowed for Roth IRA Premiums, including transfers, rollovers and conversion premiums.

If you are eligible to make Premium payments to your Traditional IRA, the amount of the Premium for which you may take a tax deduction will depend upon whether you (or, in some cases, your spouse) are an active participant in an employer-maintained retirement plan. If you (and your spouse, if married) are not an active participant, the amount of your entire Traditional IRA Premium will be deductible. If you are an active participant (or are married to an active participant), the deductibility of your Premium will depend on your modified adjusted gross income (MAGI) and your tax filing status for the tax year for which the Premium was paid. MAGI is determined on your income tax return using your adjusted gross income but disregarding any deductible Traditional IRA Premiums.

Definition of Active Participant - Generally, you will be an active participant if you are covered by one or more of the following employer-maintained retirement plans:

1. a qualified pension, profit sharing, 401(k), or stock bonus plan;
2. a qualified annuity plan of an employer;
3. a simplified employee pension (SEP) plan;
4. a retirement plan established by the federal government, a state, or a political subdivision (except certain unfunded deferred compensation plans under Code section 457);
5. a tax-sheltered annuity for employees of certain tax-exempt organizations or public schools;
6. a plan meeting the requirements of Code section 501(c)(18);
7. a qualified plan for self-employed individuals (H.R. 10 or Keogh Plan); and
8. a SIMPLE IRA plan or a SIMPLE 401(k) plan.

If you do not know whether your employer maintains one of these plans, or whether you are an active participant in it, check with your employer or your tax advisor. Also, the IRS Form W-2, *Wage and Tax Statement*, that you receive at the end of the year from your employer will indicate whether you are an active participant.

If you are an active participant and are single, the deductible amount of your Premium is determined as follows. (1) Begin with the appropriate phase-out range maximum for the applicable year (specified below), and subtract your MAGI; (2) divide this total by the difference between the phase-out maximum and minimum; (3) multiply this number by the maximum allowable Premium for the applicable year, including catch-up Premiums if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take. For example, if you are age 30 with MAGI of \$42,000 in 2003, your maximum deductible Premium is \$2,400 (the 2003 phase-out range maximum of \$50,000 minus your MAGI of \$42,000, divided by the difference between the maximum and minimum phase-out range limits of \$10,000 and multiplied by the Premium limit of \$3,000).

If you are an active participant, are married and you file a joint income tax return, the deductible amount of your Premium is determined as follows. (1) Begin with the appropriate phase-out maximum for the applicable year (specified below), and subtract your MAGI; (2) divide this total by the difference between the phase-out range maximum and minimum; (3) multiply this number by the maximum allowable Premium for the applicable year, including catch-up Premiums if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take. For example, if you are age 30 with MAGI of \$62,000 in 2003, your maximum deductible Premium is \$2,400 (the 2003 phase-out maximum of \$70,000 minus your MAGI of \$62,000, divided by the difference between the maximum and minimum phase-out limits of \$10,000 and multiplied by the Premium limit of \$3,000.).

If you are an active participant, are married and you file a separate income tax return, your MAGI phase-out range is generally \$0 - \$10,000. However, if you lived apart for the entire tax year, you are treated as a single filer.

Tax Year	Joint Filers		Single Taxpayers	
	Phase-Out Range		Phase-Out Range	
	(Minimum)	(Maximum)	(Minimum)	(Maximum)
2002	\$54,000	- \$ 64,000	\$34,000	- \$44,000
2003	\$60,000	- \$ 70,000	\$40,000	- \$50,000
2004	\$65,000	- \$ 75,000	\$45,000	- \$55,000
2005	\$70,000	- \$ 80,000	\$50,000	- \$60,000
2006	\$75,000	- \$ 85,000	\$50,000	- \$60,000
2007	\$80,000	- \$100,000	\$50,000	- \$60,000

If you are not an active participant in an employer-maintained retirement plan, but are married to someone who is an active participant, and you file a joint income tax return, your maximum deductible Premium is determined as follows: (1) Begin with \$160,000 and subtract your MAGI; (2) divide this total by \$10,000; (3) multiply this number by the maximum allowable Premium for the applicable year, including catch-up Premiums if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take.

You must round the resulting deduction to the next highest \$10 if the number is not a multiple of 10. If your resulting deduction is between \$0 and \$200 you may round up to \$200.

B. *PREMIUM DEADLINE* - The deadline for making an IRA Premium is your tax return due date (not including extensions). You may designate a Premium as a Premium for the preceding taxable year in a manner acceptable to us. For example, if you are a calendar year taxpayer, and you make your Roth IRA Premium on or before April 15, your Premium is considered to have been made for the previous tax year if you designate it as such.

C. *TAX CREDIT FOR PREMIUMS* - For taxable years beginning on or after January 1, 2002, and ending on or before December 31, 2006, you may be eligible to receive a tax credit for your Traditional or Roth IRA Premiums. This credit will be allowed in addition to any tax deduction that may apply, and may not exceed \$1,000 in a given year. You may be eligible for this tax credit if you are

- age 18 or older as of the close of the taxable year,
- not a dependent of another taxpayer, and
- not a full-time student.

The credit is based upon your income (see chart below), and will range from 0 to 50 percent of eligible Premiums. In order to determine the amount of your Premiums, add all of the Premiums made to your Traditional or Roth IRA and reduce these Premiums by any distributions that you have taken during the testing period. The testing period begins two years prior to the year for which the credit is sought and ends on the tax return due date (including extensions) for the year for which the credit is sought. In order to determine your tax credit, multiply the applicable percentage from the chart below by the amount of your Premiums that do not exceed \$2,000.

Adjusted Gross Income*			Applicable Percentage
Joint Return	Head of Household	All Other Cases	
\$1 - 30,000	\$1 - 22,500	\$1 - 15,000	50
30,001 - 32,500	22,501 - 24,375	15,001 - 16,250	20
32,501 - 50,000	24,376 - 37,500	16,251 - 25,000	10
Over 50,000	Over 37,500	Over 25,000	0

* Adjusted gross income includes foreign earned income and income from Guam, America Samoa, North Mariana Islands and Puerto Rico.

- D. **TAX-DEFERRED EARNINGS** - The investment earnings of your Traditional IRA are not subject to federal income tax until distributions are made (or, in certain instances, when distributions are deemed to be made).

The investment earnings of your Roth IRA are not subject to federal income tax as they accumulate in your Roth IRA. In addition, distributions of your Roth IRA earnings will be free from federal income tax if you take a qualified distribution.

- E. **NONDEDUCTIBLE PREMIUMS** - You may make Traditional IRA nondeductible Premiums to your Traditional IRA to the extent that deductible Premiums are not allowed. The sum of your deductible and nondeductible Traditional IRA Premiums cannot exceed your Premium limit (the lesser of the allowable Premium limit described previously, or 100 percent of compensation). You may elect to treat deductible Traditional IRA Premiums as nondeductible.

If you make nondeductible Premiums for a particular tax year, you must report the amount of the nondeductible Premium along with your income tax return using IRS Form 8606, *Nondeductible IRAs and Coverdell ESAs*. Failure to file IRS Form 8606 will result in a \$50 per failure penalty.

If you overstate the amount of designated nondeductible Premiums for any taxable year, you are subject to a \$100 penalty unless reasonable cause for the overstatement can be shown.

- F. **TAXATION OF DISTRIBUTIONS** - The taxation of Traditional IRA distributions depends on whether or not you have ever made nondeductible Traditional IRA Premiums. If you have only made deductible Premiums, any Traditional IRA distribution will be fully included in income.

If you have ever made nondeductible Premiums to any IRA, other than a Roth IRA, the following formula must be used to determine the amount of any Traditional IRA distribution excluded from income.

$$\frac{(\text{Aggregate Nondeductible Premiums})}{\text{x (Amount Withdrawn)}} = \frac{\text{Aggregate IRA Balance}}{\text{Amount Excluded From Income}}$$

NOTE: Aggregate nondeductible Premiums include all nondeductible Premiums made by you through the end of the year of the distribution (which have not previously been withdrawn and excluded from income). Also note that the aggregate IRA balance includes the total balance of all of your IRAs as of the end of the year of distribution, and any distributions occurring during the year.

The taxation of Roth IRA distributions depends on whether the distribution is a qualified distribution or a nonqualified distribution.

1. Qualified Distributions - Qualified distributions from your Roth IRA (both the premiums and earnings) are not included in your income. A qualified distribution is a distribution which is made after the expiration of the five-year period beginning January 1 of the first year for which you made a Premium to any Roth IRA (including a conversion from a Traditional IRA), and is made on account of one of the following events:

- attainment of age 59½,
- disability,
- the purchase of a first home, or
- death.

For example, if you made a Premium to your Roth IRA for 1998, the five-year period for determining whether a distribution is a qualified distribution is satisfied as of January 1, 2003.

2. Nonqualified Distributions - If you do not meet the requirements for a qualified distribution, any earnings you withdraw from your Roth IRA will be included in your gross income and, if you are under age 59½, may be subject to an early distribution penalty. However, when you take a distribution, the amount of Premiums you made annually to any Roth IRA account will be deemed to be removed first, followed by conversion Premiums made to any Roth IRA on a first-in, first-out basis. Therefore, your nonqualified distributions will not be taxable to you until your withdrawals exceed the amount of your annual Premiums and your conversion Premiums. However, the 10 percent early distribution penalty may apply to conversion Premiums distributed within the five-year period beginning with the year in which the conversion occurred. These "ordering rules" are complex. If you have any questions regarding the taxation of distributions from your Roth IRA, please see a competent tax advisor.

G. **REQUIRED MINIMUM DISTRIBUTIONS** - You are required to take minimum distributions from your Traditional IRA at certain times in accordance with Regulations section 1.408-8. Below is a summary of the Traditional IRA distribution rules.

1. You are required to take a minimum distribution from your Traditional IRA for the year in which you reach age 70½ and for each year thereafter. You must take your first distribution by your required beginning date, which is April 1 of the year following the year you attain age 70½. Minimum distributions may be taken by annuitizing your contract to receive a series of periodic distributions made at intervals not longer than one year. The first distribution that must be made must be the distribution that is required for one payment interval. Payment intervals are the periods for which distributions are made to you (e.g., quarterly, monthly, etc.). The second distribution need not be made until the end of the next payment interval.

The size of your distributions will depend on the rate of return, your age (and the ages of your Beneficiary(ies)), the amount of Premiums you have made to your Traditional IRA, and your distribution option. Your distributions must be made at intervals not longer than one year, over your life or the life of you and your Designated Beneficiary. Distributions may also be made over a period certain not longer than your life expectancy or the joint life expectancy of you and your Beneficiary. Your life expectancy will generally be determined using the Uniform Lifetime Table provided by the IRS, which assumes a Designated Beneficiary exactly 10 years younger than you, regardless of who is named as your Beneficiary(ies), if any. You may request the use of the Single Life Expectancy Table or the Joint and Survivor Life Expectancy Table rather than the Uniform Lifetime Table, however, the Joint and Survivor table may be requested only if your spouse is your sole beneficiary and is more than 10 years younger than you.

2. If you do not annuitize your Traditional IRA, the minimum distribution for any taxable year is equal to the amount obtained by dividing the account balance at the end of the prior year by the applicable divisor.

The applicable divisor is generally determined using the Uniform Lifetime Table provided by the IRS. The table assumes a Designated Beneficiary exactly 10 years younger than you, regardless of who is named as your Beneficiary(ies), if any. You may request the use of the IRS Single Life Expectancy Table or the Joint and Survivor Life Expectancy Table rather than the Uniform Lifetime Table, however the Joint and Survivor table may be requested only if your spouse is your sole beneficiary and is more than 10 years younger than you.

3. We reserve the right to do any one of the following by April 1 of the year following the year in which you turn age 70½.
 - (a) make no distribution until you give us a proper withdrawal request,
 - (b) distribute your entire Traditional IRA to you in a single sum payment,
 - (c) determine your required minimum distribution each year based on your life expectancy, calculated using the Uniform Lifetime Table, and pay those distributions to you until you direct otherwise, or
 - (d) annuitize your Traditional IRA.

You are not required to take distributions from your Roth IRA at age 70½ (as required for Traditional and SIMPLE IRAs). However, your beneficiary(ies) is generally required to take distributions from your Roth IRA after your death. See the section titled *Beneficiary Payouts* in this Disclosure Statement regarding beneficiary's(ies') required minimum distributions.

H. ROLLOVERS AND CONVERSIONS - Your Traditional IRA may be rolled over to a Traditional IRA of yours, may receive rollover Premiums, and may be converted to a Roth IRA, provided that all of the applicable rollover and conversion rules are followed.

Your Roth IRA may be rolled over to another Roth IRA of yours, may receive rollover Premiums, or may receive conversion Premiums provided that all of the applicable rollover and conversion rules are followed. Rollover is a term used to describe a tax-free movement of cash to your Traditional IRA from another Traditional IRA or SIMPLE IRA, or from your employer's qualified retirement plan, 403(a) annuity plan, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan. Conversion is a term used to describe the movement of Traditional IRA or SIMPLE IRA assets to a Roth IRA. A conversion is generally a taxable event. The rollover and conversion rules are generally summarized below. These transactions are often complex. If you have any questions regarding a rollover or conversion, please see a competent tax advisor.

1. **Traditional IRA to Traditional IRA Rollovers** - Funds distributed from your Traditional IRA may be rolled over to a Traditional IRA of yours if the requirements of Code section 408(d)(3) are met. A proper Traditional IRA to Traditional IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received. You may not have completed another Traditional IRA to Traditional IRA rollover from the distributing Traditional IRA during the 12 months preceding the date you receive the distribution. Further, you may rollover the same dollars only once every 12 months.
2. **SIMPLE IRA to Traditional IRA Rollovers** - Funds may be distributed from your SIMPLE IRA and rolled over to your Traditional IRA without IRS penalty, provided two years have passed since you first participated in a SIMPLE IRA plan sponsored by your employer. As with Traditional IRA to Traditional IRA rollovers, the requirements of Code section 408(d)(3) must be met. A proper SIMPLE IRA to Traditional IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received. You may not have completed another SIMPLE IRA to Traditional IRA or SIMPLE IRA to SIMPLE IRA rollover from the distributing SIMPLE IRA during the 12 months preceding the date you receive the distribution. Further, you may roll over the same dollars only once every 12 months.
3. **Employer-Sponsored Retirement Plan to Traditional IRA Rollovers** - You may roll over, directly or indirectly, any eligible rollover distribution from an eligible employer-sponsored retirement plan. An eligible rollover distribution is defined, generally, as any distribution from a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan (other than distributions to nonspouse beneficiaries), unless it is part of a certain series of substantially equal periodic payments, a required minimum distribution, or a hardship distribution.

If you elect to receive your rollover distribution prior to placing it in a Traditional IRA, thereby conducting an indirect rollover, your plan administrator will generally be required to withhold 20 percent of your distribution as a payment of income taxes. When completing the rollover, you may make up the amount withheld, out of pocket, and roll over the full amount distributed from your employer-sponsored retirement plan. To qualify as a rollover, your eligible rollover distribution must be rolled over to your Traditional IRA not later than 60 days after you receive it. Alternatively, you may claim the withheld amount as income, and pay the applicable income tax and, if you are under age 59½, the 10 percent early distribution penalty (unless an exception to the penalty applies).

As an alternative to the indirect rollover, your employer generally must give you the option to directly roll over your employer-sponsored retirement plan balance to a Traditional IRA. If you elect the direct rollover option, your eligible rollover distribution will be paid directly to the Traditional IRA (or other eligible employer-sponsored retirement plan) that you designate. The 20 percent withholding requirement does not apply to direct rollovers.

4. **Traditional IRA to Employer-Sponsored Retirement Plans** - You may roll over, directly or indirectly, any eligible rollover distribution from a Traditional IRA to an employer's qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan so long as the employer-sponsored retirement plan accepts such rollover contributions. An eligible rollover distribution is defined as any taxable distribution from a Traditional IRA that is not a part of a required minimum distribution.
5. **Traditional IRA to Roth IRA Conversions** - If your MAGI is not more than \$100,000, and you are not married filing a separate income tax return, you are eligible to convert all or any portion of your existing Traditional IRA(s) into your Roth IRA(s). However, if you are age 70½ or older you must remove your required minimum distribution prior to converting your Traditional IRA. The amount of the conversion from your Traditional IRA to your Roth IRA shall be treated as a distribution for income tax purposes, and is includable in your gross income (except for any nondeductible Premiums). Although the conversion amount is generally included in income, the 10 percent early distribution penalty shall not apply to conversions from a Traditional IRA to a Roth IRA, regardless of whether you qualify for any exceptions to the 10 percent penalty.
6. **Roth IRA to Roth IRA Rollovers** - Funds distributed from your Roth IRA may be rolled over to a Roth IRA of yours if the requirements of Code section 408(d)(3) are met. A proper Roth IRA to Roth IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received. You may not have completed another Roth IRA to Roth IRA rollover from the distributing Roth IRA during the 12 months preceding the date you receive the distribution. Further, you may roll over the same dollars only once every 12 months. Roth IRA assets may not be rolled over to other types of IRAs (e.g., Traditional IRA, SIMPLE IRA).
7. **SIMPLE IRA to Roth IRA Conversions** - If your MAGI is not more than \$100,000 and you are not married filing a separate income tax return, you are eligible to convert all or any portion of your existing savings incentive match plan for employees of small employers (SIMPLE) IRA(s) into your Roth IRA(s), provided two years have passed since you first participated in a SIMPLE IRA plan sponsored by your employer. However, if you are age 70½ or older you must remove your required minimum distribution prior to converting your SIMPLE IRA. The amount of the conversion from your SIMPLE IRA to your Roth IRA shall be treated as a distribution for income tax purposes and is includable in your gross income. Although the conversion amount is generally included in income, the 10 percent early distribution penalty shall not apply to conversions from a SIMPLE IRA to a Roth IRA, regardless of whether you qualify for any exceptions to the 10 percent penalty.

At the time you make a proper rollover or conversion to a Roth IRA, you must designate in writing to us, your election to treat that contribution as a rollover or conversion. Once made, the election is irrevocable.

8. **No Rollovers from Employer-Sponsored Retirement Plans** - You may not roll over distributions from your employer's qualified retirement plan, 403(a) annuity plan, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan into your Roth IRA.
 9. **Written Election** - At the time you make proper rollover to an IRA or conversion to IRA (Roth IRA only), you must designate in writing to us your election to treat that Premium as a rollover or conversion. Once made, the rollover or conversion election is irrevocable.
- I. **TRANSFER DUE TO DIVORCE** - If all or any part of your IRA is awarded to your spouse or former spouse in a divorce or legal separation proceeding, the amount so awarded will be treated as the spouse's IRA (and may be transferred pursuant to a court-appointed divorce decree or written legal separation agreement to another IRA of your spouse), and will not be considered a taxable distribution to you. A transfer is a tax-free direct movement of cash and/or property from one Traditional IRA to another Traditional IRA, or from one Roth IRA to another Roth IRA.

- J. **RECHARACTERIZATIONS** - If you make a Premium to a Traditional IRA and later recharacterize either all or a portion of the original Premium to a Roth IRA along with net income attributable, you may elect to treat the original Premium as having been made to the Roth IRA. The same methodology applies when recharacterizing a Premium from a Roth IRA to a Traditional IRA. If you have converted from a Traditional IRA to a Roth IRA, you may recharacterize the conversion along with net income attributable back to the Traditional IRA. The deadline for completing a recharacterization is your tax filing deadline (including any extensions) for the year for which the original Premium was made or conversion completed.

LIMITATIONS AND RESTRICTIONS

- A. **SEP PLANS** - Under a simplified employee pension (SEP) plan that meets the requirements of Code section 408(k), your employer may make Premiums to your Traditional IRA. Your employer is required to provide you with information which describes the terms of your employer's SEP Plan.
- B. **SPOUSAL IRA** - If you are married and have compensation, you may make Premiums to a Traditional IRA established for the benefit of your spouse for any year prior to the year your spouse turns age 70½, regardless of whether or not your spouse has compensation. You may make these spousal Premiums even if you are age 70½ or older. You must file a joint income tax return for the year for which the Premium is made.

If you are married and have compensation, you may make Premiums to a Roth IRA established for the benefit of your spouse, regardless of whether or not your spouse has compensation. You must file a joint income tax return for the year for which the Premium is made. Your Premium may be further limited if your MAGI falls within the minimum and maximum thresholds.

The amount of Premiums you may make to your IRA and your spouse's IRA is the lesser of 100 percent of your combined compensation or \$6,000 for 2002-2004, \$8,000 for 2005-2007 and \$10,000 for 2008. This amount may be increased with cost-of-living adjustments in 2009 and beyond. However, you may not contribute more than the individual Premium limit to each IRA.

If your spouse is age 50 or older by the close of the taxable year, and is otherwise eligible, you may make an additional Premium to your spouse's IRA. The maximum additional Premium is \$500 for years 2002-2005, and \$1,000 for years 2006 and beyond.

- C. **DEDUCTION OF ROLLOVERS AND TRANSFERS** - A deduction is not allowed for rollover or transfer Premiums to your Traditional IRA.
- D. **GIFT TAX** - Transfers of your IRA assets to a Beneficiary(ies) made during your life and at your request may be subject to federal gift tax under Code section 2501.
- E. **SPECIAL TAX TREATMENT** - Capital gains treatment and 10-year forward income averaging authorized by Code section 402 do not apply to IRA distributions.
- F. **INCOME TAX TREATMENT** - Any withdrawal from your Traditional IRA is subject to federal income tax withholding. Any nonqualified withdrawal of earnings from your Roth IRA may be subject to federal income tax withholding. You may, however, elect not to have withholding apply to your IRA withdrawal. If withholding is applied to your withdrawal, not less than 10 percent of the amount withdrawn must be withheld.
- G. **PROHIBITED TRANSACTIONS** - If you or your Beneficiary(ies) engage in a prohibited transaction with your Traditional IRA, as described in Code section 4975, your IRA will lose its tax-deferred status, and you must include the value of your Traditional IRA in your gross income for the taxable year you engage in the prohibited transaction.

If you or your beneficiary engage in a prohibited transaction with your Roth IRA, as described in Code section 4975, your Roth IRA will lose its tax-deferred or tax-exempt status, and you must generally include the value of the earnings in your account in your gross income for the taxable year you engage in the prohibited transaction.

The following transactions are examples of prohibited transactions with your IRA: (1) taking a loan from your IRA; (2) buying property for personal use (present or future) with IRA funds; or (3) receiving certain bonuses or premiums because of your IRA.

- H. **PLEDGING** - If you pledge any portion of your Traditional IRA as collateral for a loan, the amount so pledged will be treated as a distribution, and will be included in your gross income for the taxable year in which you pledge the assets.

If you pledge any portion of your Roth IRA as collateral for a loan, the amount so pledged will be treated as a distribution, and may be included in your gross income for the taxable year in which you pledge the assets to the extent it represents earnings.

FEDERAL TAX PENALTIES:

- A. **EARLY DISTRIBUTION PENALTY** - If you are under age 59½ and receive a Traditional IRA distribution or a nonqualified Roth IRA distribution, an additional tax of 10 percent will generally apply to the amount includable in income in the year distributed.

If you are under 59½ and receive a distribution of conversion amounts to a Roth IRA within the five year period beginning with the year in which the conversion occurred, an additional tax of 10% will generally apply to the amount of the distribution.

The additional tax of 10 percent will generally not apply if a distribution is made on account of 1) death, 2) disability, 3) a qualifying rollover, 4) the timely withdrawal of an excess contribution, 5) a series of substantially equal periodic payments (at least annual payments) made over your life expectancy or the joint life expectancy of you and your Beneficiary, 6) medical expenses which exceed 7.5 percent of your adjusted gross income, 7) health insurance payments if you are separated from employment and have received unemployment compensation under a federal or state program for at least 12 weeks, 8) certain qualified education expenses, 9) first-home purchases (up to a life-time maximum of \$10,000), or 10) a levy issued by the IRS.

- B. **EXCESS PREMIUM PENALTY** - An additional tax of six percent is imposed upon any excess Premiums you make to your IRA. This additional tax will apply each year in which an excess remains in your IRA. An excess Premium is any Premium that exceeds the amount that you are eligible to make.

- C. **EXCESS ACCUMULATION PENALTY** - As previously described, you must take a required minimum distribution from your Traditional IRA by your required beginning date for the year you attain age 70½ and by the end of each year thereafter. Your Beneficiary(ies) is required to take certain minimum distributions after your death.

Your beneficiary(ies) is generally required to take certain required minimum distributions from your Traditional IRA or your Roth IRA after your death.

An additional tax of 50 percent is imposed on the amount of the required minimum distribution which should have been taken but was not.

- D. **PENALTY REPORTING** - You must file IRS Form 5329 along with your income tax return to the IRS to report and remit any additional taxes.

OTHER

ADDITIONAL INFORMATION - You may obtain further information on IRAs from your District Office of the IRS. In particular, you may wish to obtain IRS Publication 590, *Individual Retirement Arrangements*, by calling 1-800-TAX-FORM or by visiting www.irs.gov on the Internet.