

# IRAs

Retire to a life you love





“For people our age, there’s a lot of  
**uncertainty ahead.**  
Our strategy is to start  
**SAVING NOW.”**

# The good news/bad news about retirement.

The good news is Americans are living much longer lives. Today's average life expectancy is 75.2 years for men and close to 80.4 for women.<sup>1</sup> That means more years in retirement to spend time with your family and pursue your own interests.

## What's the bad news?

The bad news is that it will require more money to pay for your living expenses throughout those extra years. Current sources of income for retirees, like Social Security and employer-sponsored pensions, may not be as reliable as they have been in the past, leaving it up to you to build your own personal savings or to plan to work more years.

## What about Social Security?

Currently, Social Security pays for about 40% of a retiree's income. But as the population ages, will Social Security be able to offer the same level of support as it does today?

## "I save at the office."

Some people have the option of contributing to a qualified employer retirement plan at work. If you participate in such a plan, that's a good start. Unfortunately, even if you're saving the maximum allowed, it may not be enough to pay for the type of retirement you want to have. That's where an IRA may help.

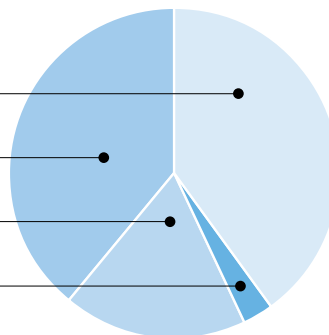
## CURRENT SOURCES OF RETIREMENT INCOME<sup>2</sup>

**41%** Savings, investments and post-retirement job earnings

**38%** Social Security

**18%** Pensions and workplace savings, e.g., 401(k)

**3%** Other



<sup>1</sup>U.S. Department of Health & Human Services, 2006.

<sup>2</sup>Social Security Administration, 2006. Shares of aggregate income by source, aged 65 and older. [www.ssa.gov](http://www.ssa.gov)

# What's an IRA?

An IRA (Individual Retirement Account) is a great way to supplement your retirement income. Although many people think an IRA is an investment product, it's helpful to think of it as a box labeled "IRA."

## **An IRA puts you in control.**

When you open an IRA, you get to decide what to put inside your box, including:

- Mutual funds
- Stocks
- Bonds
- Certificates of deposit (CDs)
- Annuities
- Other financial products

You can also move your money around within the box, switching from one type of product to another. As long as your money remains inside the box, it's protected from taxes.

## **Let tax breaks and time work for you.**

IRAs allow your money to grow tax-deferred. Until you withdraw your money (usually at retirement), all of your earnings stay inside the IRA box — along with your contributions — to generate more income as time goes by. The power of tax-deferral becomes significant, especially over long periods of time such as 20 or 30 years.

## **Taxes and the Traditional IRA.**

With a Traditional IRA, you will have to pay ordinary taxes on your withdrawals. But if you're like many people, you may be in a lower income tax bracket when you retire, and the amount of taxes you'll pay at that time may be less than what you'd pay today.

It's also important to know that any distributions taken prior to age 59½ may be subject to an additional 10% federal tax penalty.

# Play by the IRA rules.

To reap the rewards of an IRA, it's important to understand some basic IRA rules and regulations.

### Who can contribute to an IRA?

Anyone earning an income can contribute to an IRA.

If you're married and do not work but your spouse does, you may also contribute to an IRA. There are two benefits of doing this:

- It doubles your family's retirement savings power
- In case of divorce, you will each have retirement funds in your name

### How much can you contribute?

You can contribute \$4,000 to an IRA if you're age 49 or under. The amount will be raised to \$5,000 in 2008. Additionally, a catch-up provision allows anyone 50 or older to make larger contributions. (See chart below.)

### When can you contribute?

IRAs can be opened for a tax year from January 1 of a given year until April 15 of the following year. Contributions of any amount (up to annual maximum) can be made any time in between.

### When can you take the money out?

There may be penalties if you withdraw your IRA money before age 59½. However, don't let fear of needing the money before that age hold you back from opening and contributing regularly to an IRA. Contributions and earnings may be available to you penalty-free before age 59½ for certain situations such as:

- First-time home purchase<sup>3</sup>
- College expenses<sup>3</sup>
- Medical expenses<sup>3</sup>

YEAR	MAXIMUM IRA CONTRIBUTION AMOUNT PER PERSON*	
	Age 49 and under	Age 50 and over
2007	\$4,000	\$5,000
2008-2010	\$5,000**	\$6,000**

\* This amount, or 100% of your earned income, whichever is less.  
 \*\* The contributions limits (excluding catch-up contributions) will be indexed for inflation after 2008.

<sup>3</sup>Penalty-free withdrawals for first-time home purchase are limited to \$10,000 lifetime. Penalty-free withdrawals for medical expenses are allowed only on expenses in excess of 7.5% of your Adjusted Gross Income (AGI). Penalty-free withdrawals for college expenses are allowed only for amounts used to pay qualified higher education expenses.

# Two types of IRAs to know: Traditional and Roth.

Basically, there are two types of IRAs — Traditional and Roth. Both give you tax-advantaged growth, and both have the same maximum contribution limits and deadlines. (See *previous page*.) However, there are several features that make them different.

	Traditional IRA	Roth IRA
<b>Are contributions tax deductible?</b>	Contributions may be tax-deductible, depending on: <ul style="list-style-type: none"> <li>▪ Your income</li> <li>▪ Your marital status</li> <li>▪ Whether you and/or your spouse participate in a retirement plan at work</li> </ul>	Contributions are not tax-deductible
<b>How are earnings taxed?</b>	Earnings from your contributions grow tax-deferred; you pay no taxes until you withdraw the money <sup>4</sup>	Earnings from your contributions grow tax-free; you pay no taxes when you withdraw the money <sup>5</sup>
<b>Is there a contribution age limit?</b>	You may not make contributions after age 70½	You may continue to make contributions at any age
<b>Is there a distribution requirement based on age?</b>	You are required to start taking the money out of your IRA when you reach 70½	You are not required to start taking distributions from the Roth during your lifetime

<sup>4</sup>Generally, IRA withdrawals are treated as distributions of gain. Withdrawals of gain are taxed as ordinary income and, if taken prior to age 59½, may be subject to an additional 10% federal penalty tax.

<sup>5</sup>Qualified distributions from a Roth IRA are tax-free. A distribution is qualified if it is held for five years and if made once you reach 59½, upon death or disability, or for a first-time home purchase (lifetime limit of \$10,000).

“I plan to keep working.  
But I want that to be  
**BY CHOICE —**  
not necessity.”



# More about Traditional IRAs.

In 1982, Congress made IRAs available to everyone with an earned income as a way to encourage Americans to save more for retirement.

## **Your contributions may be tax-deductible.**

In addition to earnings being tax-deferred, Traditional IRAs can be fully or partially tax-deductible. For example, if you earned \$30,000 for the year and you put \$4,000 of it into an IRA, you'd only pay income tax on \$26,000.

Even if you earn too much to qualify for a full deduction, the tax-deferral of an IRA still gives it an edge over most investment options. *The chart below shows the guidelines for a full deduction for 2007.*

## **DEDUCTION ELIGIBILITY FOR A TRADITIONAL IRA**

### **Single**

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You may receive a full deduction if:

- You're not covered by an employer-sponsored retirement plan **OR**
- You're covered by an employer-sponsored retirement plan but have an Adjusted Gross Income (AGI) less than \$52,000 in 2007<sup>6</sup>

### **Married filing jointly**

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You or your spouse may receive a full deduction if:

- Neither you or your spouse are covered by an employer-sponsored retirement plan **OR**
- You are covered by an employer-sponsored retirement plan and your AGI is less than \$83,000 in 2007<sup>6</sup> **OR**
- Your spouse is covered by an employer-sponsored retirement plan, but you are not, and your AGI is less than \$156,000 in 2007<sup>7</sup>

<sup>6</sup>For determining eligibility for an IRA contribution, Adjusted Gross Income (AGI) is gross income minus allowable deductions determined without regard to an IRA deduction. You'll find your AGI at the bottom of page 1 of your 1040 income tax form.

# More about Roth IRAs.

The tax breaks for a Roth IRA differ significantly from a Traditional IRA. In fact, as long as you follow Roth IRA rules, you will never have to pay taxes on your earnings.

## Contributions come from pre-taxed income.

Unlike contributions to a Traditional IRA, contributions to a Roth IRA are never deductible. For example, if you earned \$30,000 for the year and you put \$4,000 of it into an IRA, you'd pay income tax on the full \$30,000. However, once you reach age 59½ and have had the Roth IRA for five years, you're allowed to withdraw all the money, including earnings, without paying one cent of tax. That's right — Roth IRA withdrawals are always tax-free.

For many people, paying taxes now to enjoy tax-free income later makes sense in the long term.

## Here's an example.

Linda Smith contributes \$4,000 each year to a Roth IRA. When she withdraws the money, providing she follows the Roth IRA guidelines,<sup>7</sup> she'll get 100% of her \$4,000 back, plus all the earnings, compounded over the years. Her neighbor Bob Jones also contributes \$4,000 annually — but to a non-deductible Traditional IRA. When he makes a withdrawal from his IRA, his money is reduced by his requirement to pay income taxes on his earnings.

## DO YOU QUALIFY?

With a Traditional IRA, anyone who earns an income can contribute. How much money you earn determines whether your contribution is deductible or non-deductible. The big difference with a Roth IRA is that how much money you earn actually determines if you can contribute at all.

### You qualify for a contribution to a Roth IRA if:

- You're single and your AGI is below \$114,000<sup>6,7</sup>
- You're married and file jointly and your AGI is below \$166,000<sup>6,7</sup>

<sup>7</sup> If you're single and your Adjusted Gross Income (AGI) is above \$99,000 but less than \$114,000 or if you're married/filing jointly and your AGI is above \$156,000 but less than \$166,000, you may qualify for a partial contribution to a Roth IRA. Ask your Allstate agent or Allstate Personal Financial Representative for more information.

# Which type is right for you?

## A TRADITIONAL IRA MAY BE RIGHT FOR YOU IF:

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- You're eligible to fully deduct your contributions with a Traditional IRA (see "More about Traditional IRAs")
- You think your tax rate in retirement will be lower than your current rate
- Neither you nor your spouse are covered by an employer-sponsored plan
- You do not qualify for a Roth IRA but wish to take advantage of tax-deferred retirement savings

## A ROTH IRA MAY BE RIGHT FOR YOU IF:

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- You qualify based on your AGI<sup>6,7</sup> (see "More about Roth IRAs")
- You're just starting your career and think your tax rate in retirement might be higher than your current rate
- You're close to retirement and want to continue to build your tax-advantaged assets
- You want to wait until you're older than age 70½ to begin taking distributions

### **We can help you choose.**

If you're not sure which type of IRA might work best for you, your Allstate agent or Allstate Personal Financial Representative can help you decide.

### **Have it both ways.**

If you're eligible for a Roth IRA, you can actually own and contribute to both types of IRAs as long as you remain within your annual contribution limit. (See page 5.)

### **Should you convert your Traditional IRA into a Roth?**

If you've already established a Traditional IRA, it may not be too late to switch to a Roth IRA. Here are two things you may want to consider:

- If your AGI is more than \$100,000<sup>6</sup> (filing single or jointly) for the year you wish to convert, you are not eligible for a conversion. Starting in 2010, there will be no income limit for conversion.
- You will have to pay taxes on the amount converted so that you may withdraw the money tax-free later. If you convert in 2010, taxes can be paid in 2011 and 2012.

# Rollover IRAs.

Changing jobs? Retiring? Consider a Rollover IRA.

**Don't throw away your savings.**

If you're changing jobs or retiring, it may be tempting to take the money in a lump sum. However, doing so could cause you to lose a big portion of your savings to penalties and taxes. Keeping your retirement money in a tax-deferred plan is almost always a better idea.

To avoid penalties or taxes, it's important to follow rollover IRA guidelines. Your Allstate agent or Allstate Personal Financial Representative can help you successfully roll over your money.

**SOME TYPICAL EMPLOYER RETIREMENT PLAN DISTRIBUTION OPTIONS**

Option	Pros	Cons
<b>Take some or all of the money in a lump sum cash payment</b>	Potential to have a large sum of money at your disposal	Taxes and penalties could severely reduce savings Future tax-deferred growth is lost
<b>Leave money in the plan</b>	No taxes or penalties Money continues to grow tax-deferred Can transfer money to another plan or IRA later	Investment options and access to money may be limited May incur administrative charges
<b>Transfer money to a new employer's plan</b>	No taxes or penalties Money continues to grow tax-deferred	New plan may not accept funds from previous plan Investment options and access to money may be limited
<b>Roll over money to a Traditional IRA with a direct rollover</b>	No taxes or penalties Money continues to grow tax-deferred Broad range of investment options	May incur small administrative charges Any loans from employer's plan must be paid immediately

**FOR MORE INFORMATION ABOUT HOW AN IRA CAN HELP YOU RETIRE TO A LIFE YOU LOVE, CALL YOUR ALLSTATE AGENCY.**

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