THE
Pension
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ALSO IN THIS ISSUE –

Collin W. Fritz and Associates, Inc.,
"The Pension Specialists"

IRA Annual Contributions for 2004-2008

The following charts show the contributions to traditional IRAs, Roth IRAs, SEP-IRAs and SIMPLE-IRAs for the tax years of 2004-2008. The information compiling these charts comes from the 5498 forms for such years. Here are our observations:

1. IRA contributions of $274 billion were made as follows:

2004	48.7 billion
2005	54.3 billion
2006	56.9 billion
2007	58.8 billion
2008	55.6 billion
Total	274.3 billion

2. The percentage being contributed to each type of IRA has been quite consistent over these four years as follows:

Roth IRAs	32.1%
SEP-IRAs	27.0%
Traditional IRAs	24.9%
SIMPLE-IRAs	16.0%
Total	100.0%

3. The IRA maximum contribution limits for traditional IRAs and Roth IRAs increased during these years as follows:

	Under Age 50	Age 50 and Older
2004	$3,000	$3,500
2005	$4,000	$4,500
2006	$4,000	$5,000
2007	$4,000	$5,000
2008	$5,000	$6,000

4. The IRA maximum contribution limits for SEP-IRAs increased during these years as follows:

	Under Age 50	Age 50 and Older
2004	$41,000	$41,000
2005	$42,000	$42,000
2006	$44,000	$44,000
2007	$45,000	$45,000
2008	$46,000	$46,000

5. The IRA maximum contribution limits for SIMPLE-IRAs increased during these years as follows:

	Under Age 50	Age 50 and Older
2004	$9,000	$10,500
2005	$10,000	$12,000
2006	$10,000	$12,500
2007	$10,500	$13,000
2008	$10,500	$13,000

Note: these are limits for the employee elective deferrals. The employer also may make a matching contribution of 3% or less.

6. See the chart on page 8 as to how many individuals are eligible to make annual IRA contributions. In general, 150 million individuals are eligible.

7. The percentage of eligible individuals making IRA contributions is approximately 10%. The number of contributors for 2004 was 14.7 million. By 2008 the number of contributors had decreased to 12.8 million. A decrease of 1.9 million contributions or a 13% decrease.

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IRA Annual Contributions, Continued from page 1

One of the reasons for the decrease is the decrease in the contributions made to traditional IRAs. 5.3 million contributions were made for 2004, but only 3.8 million contributions were made for 2008.

Another reason for the decrease is the decrease in the number of contributions made to SEP-IRAs. 1.57 million contributions were made for 2004, but only 1.36 million contributions were made for 2008.

Another reason for the decrease is the decrease in the contributions made to Roth IRAs. 6.66 million contributions were made for 2004, but only 6.14 million contributions were made for 2008.

SIMPLE-IRA contributions were the only IRA contributions which increased from 2004 to 2008. In 2004, there were 1.9 million SIMPLE-IRA contributions. In 2008 there were 2.1 million SIMPLE-IRA contributions.

8. For SEP and SIMPLE plans, total contributions include contributions made by the taxpayer directly as well as those made by the employer.

9. The largest amount of IRA contributions are going into Roth IRAs. The second largest amount of IRA contributions go into SEP-IRAs.

10. There are contributions which are not deducted on the Form 1040.

Individuals make nondeductible IRA contributions.

Corporations will make contributions to the SEP-IRA and SIMPLE-IRAs of its employees. These contributions are excluded from the employee's income by the employer and the individual.

With respect to SEP contributions individuals claimed tax deductions in the amount of 8.2 billion; the remaining contribution amount of 6.5 billion would have been contributed by corporations and were deducted on the corporate return.

With respect to SIMPLE contributions individuals claimed tax deductions in the amount of 2.7 billion; the remaining contribution amount of 6.6 billion would have been contributed by corporations and were deducted on the corporate return.

IRA Contributions 2004 – All Types

	Total Contributions			Contributions Deducted on Form 1040	
	Number of Taxpayers	Amount (1,000s)	%	Number of Taxpayers	Amount (1,000s)
Trad.	5,305,442	$12,632,543	25.93%	4,011,681	$10,028,607
SEP	1,571,637	$13,757,176	28.23%	920,770	$7,923,068
SIMPLE	1,935,896	$7,621,057	15.64%	733,163	$2,293,941
Roth	6,657,635	$14,717,878	30.20%	N/A	N/A
Total	14,706,060	$48,728,654	100.00%	5,587,535	$20,245,616

IRA Contributions 2005 – All Types

	Total Contributions			Contributions Deducted on Form 1040	
	Number of Taxpayers	Amount (1,000s)	%	Number of Taxpayers	Amount (1,000s)
Trad.	4,595,188	$13,431,276	24.75%	3,880,812	$12,003,037
SEP	1,556,200	$14,356,019	26.46%	884,410	$8,227,843
SIMPLE	1,995,205	$8,492,299	15.65%	698,828	$2,417,332
Roth	6,739,575	$17,979,041	33.14%	N/A	N/A
Total	14,159,366	$54,258,365	100.00%	5,374,782	$22,648,212

IRA Contributions 2006 – All Types

	Total Contributions			Contributions Deducted on Form 1040	
	Number of Taxpayers	Amount (1,000s)	%	Number of Taxpayers	Amount (1,000s)
Trad.	4,571,195	$ 14,332,178	25.17%	3,849,367	$12,533,506
SEP	1,495,304	$14,952,393	26.26%	843,617	$8,681,2178
SIMPLE	2,038,153	$ 8,928,850	15.68%	741,356	$2,580,895
Roth	6,756,533	$18,723,871	32.89%	N/A	N/A
Total	14,150,246	$56,937,292	100.00%	5,365,976	$23,795,618

IRA Contributions 2007 – All Types

	Total Contributions			Contributions Deducted on Form 1040	
	Number of Taxpayers	Amount (1,000s)	%	Number of Taxpayers	Amount (1,000s)
Trad.	4,535,248	$14,356,021	24.43%	3,914,530	$12,876,504
SEP	1,466,552	$ 16,098,092	27.40%	832,004	$8,986,318
SIMPLE	2,118,383	$ 9,563,423	16.27%	760,076	$2,729,627
Roth	6,807,422	$18,743,371	31.90%	N/A	N/A
Total	14,225,681	$58,760,907	100.00%	5,435,021	$24,592,449

IRA Contributions 2008 – All Types

	Total Contributions			Contributions Deducted on Form 1040	
	Number of Taxpayers	Amount (1,000s)	%	Number of Taxpayers	Amount (1,000s)
Trad.	3,863,370	$ 13,382,543	24.08%	3,215,499	$11,665,532
SEP	1,358,435	$ 14,697,415	26.44%	755,973	$ 8,210,956
SIMPLE	2,070,574	$ 9,299,899	16.73%	733,268	$2,697,161
Roth	6,135,599	$ 18,199,820	32.75%	N/A	N/A
Total	12,806,527	$55,579,677	100.00%	4,634,077	$22,573,649

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Roth IRA Statistics From 2004-2008

From 2004-2008, individuals made Roth IRA contributions of 88 billion. Individuals made Roth IRA contributions more often than any other type of IRA contributions. The average annual contribution amount has been 17.6 billion.

The number of contributors was 6.6 million in 2004 and was 6.7 to 6.8 million for 2005-2007. For 2008, due to the recession of 2008 the number of contributors decreased to 6.1 million. The contribution amount decreased to 18.2 billion from 18.7 billion.

Summary of Roth IRA Contributions by Age

Under age 30	14.0%
Ages 30-39	25.0%
Ages 40-49	27.0%
Ages 50-59	24.0%
Ages 60 & older	10.0%
Total	**100.0%**

All Contributors For 2004	Number of Contributors	%	Amount (1,000's)	Average Contribution
No age info	0	0.00	0	0
0-14	9,383	0.14	$24,451	$2,606
15-19	55,106	0.83	$101,496	$1,842
20-24	264,229	3.97	$467,664	$1,770
25-29	623,182	9.36	$1,131,993	$1,816
30-34	731,835	10.99	$1,378,890	$1,884
35-39	920,401	13.82	$1,792,073	$1,947
40-44	861,184	12.93	$1,775,124	$2,061
45-49	930,255	13.97	$1,984,428	$2,133
50-54	890,184	13.37	$2,216,069	$2,489
55-59	738,191	11.09	$2,062,376	$2,794
60-64	408,634	6.14	$1,116,980	$2,733
65-69	143,024	2.15	$414,754	$2,900
70 or more	82,025	1.23	$251,581	$3,067
Total	6,657,633	100.00	$14,717,879	$2,211

All Contributors For 2005	Number of Contributors	%	Amount (1,000's)	Average Contribution
No age info	2,945	0.00	0	0
0-14	14,966	0.22	$24,451	$1,634
15-19	93,816	1.39	$101,496	$1,082
20-24	368,680	5.47	$467,664	$1,268
25-29	692,557	10.28	$1,131,993	$1,635
30-34	789,157	11.71	$1,378,890	$1,747
35-39	810,239	12.02	$1,792,073	$2,212
40-44	818,150	12.14	$1,775,124	$2,170
45-49	865,212	12.84	$1,984,428	$2,294
50-54	925,316	13.73	$2,216,069	$2,395
55-59	770,482	11.43	$2,062,376	$2,677
60-64	375,315	5.57	$1,116,980	$2,976
65-69	124,107	1.84	$414,754	$3,342
70 or more	88,632	1.32	$251,581	$2,838
Total	6,739,574	100.00	$17,979,038	$2,668

All Contributors For 2006	Number of Contributors	%	Amount (1,000's)	Average Contribution
No age info	5,574	0.08	$15,108	$2,710
0-14	1,4724	0.22	$37,148	$2,523
15-19	101,239	1.49	$200,717	$1,983
20-24	345,197	5.11	$768,463	$2,226
25-29	730,386	10.81	$1,648,668	$2,257
30-34	748,270	11.08	$1,667,727	$2,229
35-39	843,016	12.48	$1,986,460	$2,356
40-44	771,609	11.42	$1,871,128	$2,425
45-49	863,291	12.78	$2,259,899	$2,618
50-54	899,263	13.31	$2,927,462	$3,255
55-59	788,386	11.67	$2,890,983	$3,667
60-64	432,173	6.40	$1,648,955	$3,815
65-69	136,357	2.02	$503,549	$3,693
70 or more	77,049	1.14	$297,605	$3,863
Total	6,756,534	100.00	$18,723,872	$2,771

All Contributors For 2007	Number of Contributors	%	Amount (1,000's)	Average Contribution
No age info	15,517	0.23	$36,529	$2,354
0-14	16,494	0.24	$40,173	$2,436
15-19	101,359	1.49	$212,677	$2,098
20-24	356,417	5.24	$776,505	$2,179
25-29	735,779	10.81	$1,687,095	$2,293
30-34	787,555	11.57	$1,717,572	$2,181
35-39	823,803	12.10	$1,898,227	$2,304
40-44	761,978	11.19	$1,872,965	$2,458
45-49	881,161	12.94	$2,316,091	$2,628
50-54	917,680	13.48	$2,991,040	$3,259
55-59	745,153	10.95	$2,655,674	$3,564
60-64	443,676	6.52	$1,698,405	$3,828
65-69	141,611	2.08	$535,801	$3,784
70 or more	79,241	1.16	$304,634	$3,844
Total	6,807,424	100.0	$18,743,388	$2,753

All Contributors For 2008	Number of Contributors	%	Amount (1,000's)	Average Contribution
No age info	17,122	0.08	$ 50,869	$2,971
0-14	11,584	0.22 $	$35,718	$3,083
15-19	62,418	1.49	$ 145,471	$2,330
20-24	330,776	5.11	$ 751,619	$2,272
25-29	636,253	10.81	$1,566,014	$2,461
30-34	711,387	11.08	$1,702,505	$2,393
35-39	740,706	12.48	$1,874,742	$2,531
40-44	724,335	11.42	$1,886,373	$2,604
45-49	745,914	12.78	$2,064,809	$2,768
50-54	792,937	13.31	$2,711,784	$3,420
55-59	699,566	11.67	$2,622,356	$3,749
60-64	439,004	6.40	$1,853,221	$4,221
65-69	151,340	2.02	$ 619,391	$4,093
70 or more	72,258	1.14	$314,950	$4,359
Total	6,135,600	100.00	$18,199,822	$2,966

Rollover for 2004-2008 Traditional IRAs

	Number of Taxpayers	Rollover Amounts (1,000's)	Average
2004	3,636,027	$ 214,878,446	$59,097
2005	3,754,759	$ 228,495,888	$60,855
2006	4,150,140	$ 281,976,971	$67,944
2007	4,478,322	$ 316,646,832	$70,707
2008	5,609,522	$ 272,104,973	$48,508
Total	21,628,770	$1,314,103,110	$60,757

Observations

1. Over the 5-year period, 1.3 trillion of assets were rolled into traditional IRAs from 401(k) plans, other pension plans, and other traditional IRAs.
2. The annual rollover amount is 263 billion on average.
3. The average per person rollover amount is $60,757 over the 5-year period.
4. The 2008 recession is again evident. A large increase in the number of persons making a rollover contribution and a substantial decrease ($48,508 on average) in the amount being rolled over. Very likely the difference was taken as a taxable distribution and used for current living expenses.
5. At this point the IRS is not reporting separately rollovers into Roth IRAs from other Roth IRAS. Now that funds can be rolled over into Roth IRAS from 401(k) plans one can expect that such rollovers will be reported in future statistical reports.

End-of-Year Fair Market Values for IRAs for 2004-2008

The following charts show the fair market values for traditional IRAs, Roth IRAs, SEP-IRAs and SIMPLE-IRAs. These amounts do vary. They were certainly impacted by the economic recession of 2008. The annual percentages surprisingly stay quite constant:

Traditional IRAs	88.5%
SEP-IRAs	5.5%
SIMPLE-IRAs	1.2%
Roth IRAs	4.8%
Total	100.00%

Other charts set forth in this newsletter will show that traditional IRAs may not have much annual contribution activity anymore, but there is substantial rollover and distribution activity.

The FMV charts below show that the FMV for all IRAs was 3.7 trillion as of December 31, 2008. The DOL reported this value as being 4.7 trillion as of December 31, 2010 as the economy and the markets did improve during 2010.

End-of-Year Fair Market Value 2004

	Number of Taxpayers	FMV Amount	Percent
Traditional	40,776,679	$ 2,956,687,858	89.62%
SEP	3,464,511	$ 168,681,300	5.11%
SIMPLE	2,514,838	$ 33,981,022	1.03%
Roth	13,479,182	$ 139,949,977	4.24%
Total	50,948,264	$ 3,299,300,157	100.00%

End-of-Year Fair Market Value 2005

	Number of Taxpayers	FMV Amount	Percent
Traditional	39,590,259	$3,034,029,590	88.58%
SEP	3,451,220	$193,027,913	5.64%
SIMPLE	2,613,714	$42,111,873	1.23%
Roth	13,739,749	$156,052,711	4.55%
Total	50,210,357	$3,425,222,087	100.00%

End-of-Year Fair Market Value 2006

	Number of Taxpayers	FMV Amount	Percent
Traditional	41,482,875	$3,722,273,804	88.47%
SEP	3,662,238	$236,469,601	5.62%
SIMPLE	2,735,429	$52,371,826	1.25%
Roth	14,593,630	$196,082,999	4.66%
Total	52,429,141	$4,207,198,230	100.00%

End-of-Year Fair Market Value 2007

	Number of Taxpayers	FMV Amount	Percent
Traditional	42,877,064	$4,187,362,663	88.20%
SEP	3,739,715	$265,581,190	5.59%
SIMPLE	2,907,804	$ 62,470,960	1.32%
Roth	15,442,374	$232,330,680	4.89%

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End-of-Year Fair Market Value 2008

	Number of Taxpayers	FMV Amount	Percent
Traditional	43,054,097	$3,257,294,689	88.49%
SEP	3,726,835	$201,497,706	5.47%
SIMPLE	2,896,031	$45,634,790	1.24%
Roth	15,951,065	$176,638,800	4.80%
Total	54,497,580	$3,681,065,985	100.00%

IRA and Pension Stats for the DOL

In 2010, approximately 48.6 million U.S. households maintained at least one of the IRA types. Assets in these IRAs was 4.7 trillion.

The population of the United States is approximately 315 million.

Employer retirement plans also hold 4.7 trillion in assets. There are 718,000 such plans with approximately 86 million active participants. Of these plans, approximately 498,000 plans are 40l(k) plans with 60 million active participants and assets of 2.2 trillion.

DOL Adopts Final Regulation on Fees and Furnishing Investment Advice to IRAs and 401(k) Plans

There are now 498,000 401(k) plans in the United States. Many of these plans for investment purposes have participant directed individual account plans. It is generally believed by the DOL and many investment professionals that many participants will benefit if they are able to receive high-quality fiduciary investment advice so that they can more wisely invest their 401(k) funds. This is also true for many IRA owners.

However, the DOL is concerned about investment advisors having conflicts of interest. For example, the investment advisor might be paid fees or commissions by a mutual fund company if a plan chooses to use the funds of that mutual fund company. In general, under current law the payment of fees or commissions to an investment advisor is a prohibited transaction under Code section 4975.

The Pension Protection Act of 2006 (PPA) amended the Employee Retirement Security Act of 1974 (ERISA) to create a new statutory exemption so that the rendering of certain investment advice is not a prohibited transaction if certain requirements are met. That is, fiduciary advisers are now allowed to receive fees from investment advisers whose products are recommended to the IRA participants or the 401(k) participants if certain conditions are met.

The DOL has adopted a strict interpretation of this new law (i.e. the new statutory exemption). The DOL has stated that this new law does not invalidate or otherwise affect prior guidance of the DOL relating to investment advice and that such guidance continues to represent the views of the DOL. Over the last couple years, the DOL has issued various forms of guidance concerning when a person would be a fiduciary by reason of rendering investment advice and when such investment advice might result in prohibited transactions. For example, the guidance contained in Advisory Opinion numbers 2011-08A, 2005-10A (Country Trust Bank), 2001-9A (Sun America Retirement Markets) and 1997-15A (Frost National Bank) continue to apply. The new legislation provides alternative means for providing investment advice which is protective of the interests of the plan participants and the IRA owners.

Code section 4975 sets forth the prohibited transaction rules. In general, a prohibited transaction (PT) will occur if a fiduciary of an IRA receives compensation with respect to the IRA transactions he or she directs as the investment advisor.

This new statutory exemption allows compensation to be paid by a mutual fund company or another investment vehicle in which the IRA or 401(k) plan has invested to a fiduciary investment adviser who recommends the investment in such investment companies if certain conditions are met. The IRS adopted the final regulation in October of 2011. It becomes effective on December 27, 2011, and will apply to transactions occurring on or after such date. Compensation may be received by an investment adviser if one or two approved approaches is followed.

Approach #1. The fiduciary adviser is compensated on a "level fee" basis. That is, the fees do not vary based on the investments selected by the IRA/401(k) participants.

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DOL Adopts, Continued from page 5

Approach #2. The fiduciary adviser is compensated as a result of the fact that the investment advice they provide is based on a computer model certified as unbiased and as applying generally accepted investment theories.

Here is a summary of the rules and procedures to be followed in order to qualify for the PT exemption. These rules are very complicated. It appears the DOL wants to make it very difficult to qualify for the exemption. Only the large mutual fund companies, insurance companies and banks will choose to meet these requirements.

1. Disclosures will need to be furnished to IRA participants and 401(k) participants. These disclosures will be prepared by the investment advisers.
2. Investment advisers must retain certain records.
3. A plan fiduciary must authorize the investment advice/compensation arrangement for the investment adviser. This plan fiduciary must be independent of the investment advisor or any affiliate.
4. Before adopting the proposed computer investment model, an independent expert must certify that it is unbiased and that it meets the exemption's requirements.
5. There will need to be a written procedure defining the selection process of the independent expert. There will be a need to define the qualifications the expert must possess.
6. There will need to be an annual audit of the computer model or of the level fee advice arrangements. The plan will need to select an auditor independent of the investment advice provider.
7. If there is a level-fee advice arrangement, then the investment adviser (including any employees or affiliates) must not receive any compensation from any party that varies on the basis of the investments selected by the participants. ◆

Reminder – RMD Comes Before Any Conversion or Rollover

The rule is – a person is ineligible to rollover his or her RMD from a traditional IRA. A conversion is a special type of rollover as the funds move from a traditional IRA to a Roth IRA. The governing IRA regulation provides that the first money withdrawn from an IRA is allocated to satisfying the RMD. This happens by law whether the person wants to use it to satisfy his or her RMD.

This rule (first money withdrawn counts against the RMD amount) causes problems for those individuals age 70½ and older who have set up periodic RMD distributions. For example, Jane Doe, age 75 has set up a periodic distribution schedule where she has her current year's RMD transferred to her checking account from her traditional IRA. Her IRA's account balance was approximately $28,000 as of December 31, 2010. Her RMD for 2011 is $1,400. This transfer takes place on December 5th of each year. She uses these funds for Christmas presents.

However, she comes into the financial institution on November 3, 2011 and she informs you she wishes to convert $10,000 from her traditional IRA to her Roth IRA that day.

You will need to inform her of the above rules. Her RMD amount for 2011 ($1,400) must be paid to her before she is allowed to do the conversion. So, she can withdraw the RMD amount of $1,400 on November 3, 2011 and then do the conversion. Or, she could wait to do the conversion on December 5th after her RMD has been distributed to her.

What would be the consequence if a financial institution allows Jane Doe to do the conversion as of November 3rd and then she was paid her RMD amount as of December 5th?

A tax mess occurs. Presumably, the IRA custodian will report a conversion amount of $10,000. However, only $8,600 was eligible to be converted. This means there is an excess contribution of $1,400 within the Roth IRA. The 6% excise tax will apply until corrected. If the Form 5498 is prepared to show a conversion of $10,000, the IRS may fine your institution $50 for preparing the 5498

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Reminder,
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form incorrectly. If Jane would prepare her tax return showing a conversion of $10,000, she would need to amend her return to show a conversion of $8,600 and not $10,000. The $1,400 withdrawn on December 5th would not be converted unless she would so instruct. She has 60 days to roll it over or convert it or it will be an ordinary IRA distribution and in most eases the 60-day rule will not be met.

The above illustration discusses RMDs and a conversion. Virtually identical rules will apply when a person wants to rollover funds in the same year he or she must take an RMD. The rule is – no rollover is possible until the RMD has been withdrawn for such year. Remember, that a person is allowed to transfer some or all of their IRA without having to take their RMD. ◆

Qualified Reservist Distributions and Recontributions

The general rule is that an individual younger than age 59½ owes the 10% additional tax imposed by code section 72(t). However, this 10% is not owed if the recipient meets any one of eleven exceptions. One of the exceptions is a qualified reservist distribution.

A qualified reservist distribution is a distribution meeting the following requirements:

1. The individual was ordered or called to active duty after September 11, 2001.
2. The individual was ordered or called to active duty for a period of more than 179 days or for an indefinite period because he or she is a member of a reserve component.

   The term "reserve component" means the:
   - Army National Guard of the United States,
   - Army Reserve,
   - Naval Reserve,
   - Marine Corps Reserve,
   - Air National Guard of the United States,
   - Air Force Reserve,
   - Coast Guard Reserve, or
   - Reserve Corps of the Public Health Service.
3. The distribution is from an IRA or from amounts attributable to elective deferrals under a section 401(k) or 403(b) plan or a similar arrangement.
4. The distribution was made no earlier than the date of the order or call to active duty and no later than the close of the active duty period.

Note – a person may take multiple qualified reservist distributions.

A military reservist called to active duty for 180 days or more on or after September 11, 2001, has special recontribution rights. The standard 60-day rollover rule is overridden by this special rule. The military reservist has the right to recontribute a distribution over a 2-year period ending two years after his or her active duty ended. The recontribution may be made in one or more contributions, and such recontributions are independent of the normal contribution limits. The recontribution amount cannot exceed the distribution amount.

If there is some tax rule which would otherwise prevent the individual from realizing the tax benefit of his/her recontribution, the law expressly authorizes that a refund or credit be allowed. This refund or credit is to be allowed even if it would be considered late under other tax rules, including res judicata.

Tax Reporting by the IRA Custodian

The IRA custodian will prepare a Form 1099-R to report the qualified reservist distribution. Box 7 (reason code) will be completed with a "1" if the recipient is under age 59½ and a "7" if he or she is age 59½ or older. The recipient who is under age 59½ will be required to complete Part I of Form 5329. On line 2 he or she would indicated the amount not subject to the 10% tax because he or she had taken a qualified reservist distribution (exception number 11 from the instructions for Form 5329 Part I).

An individual who took a qualified reservist distribution may, but is not required to, recontribute or repay some or all of the distribution. By repaying it, the distribution, to that extent, is treated as being rolled over (or non-taxable) even though it is outside of the 60-day requirement. Boxes 14a and 14b are used to report the repayment. Box 14a reports the amount of any repayment and code QR will be entered in box 14b to indi-

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Reservist Distributions,
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cate it was a prepayment of a qualified reservist distribution. Box 14a and 14b are used to report repayments arising from special designated disaster areas.

Set forth are the exceptions to the 10% additional tax of Code Section 72(t) from page 3 of Form 5329. Not all exceptions apply to IRA distributions.

No.	Exception
01	Qualified retirement plan distributions (does not apply to IRAs) you receive after separation from service in or after the year you reach age 55 (age 50 for qualified public safety employees).
02	Distributions made as part of a series of substantially equal periodic payments (made at least annually) for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your designated beneficiary (if from an employer plan, payments must begin after separation from service).
03	Distributions due to total and permanent disability.
04	Distributions due to death (does not apply to modified endowment contracts).
05	Qualified retirement plan distributions up to (1) the amount you paid for unreimbursed medical expenses during the year minus (2) 7.5% of your adjusted gross income for the year.
06	Qualified retirement plan distributions made to an alternate payee under a qualified domestic relations order (does not apply to IRAs).
07	IRA distributions made to unemployed individuals for health insurance premiums.
08	IRA distributions made for higher education expenses.
09	IRA distributions made for purchase of a first home, up to $10,000.
10	Distributions due to an IRS levy.
11	Qualified distributions to reservists while serving on active duty for at least 180 days.
12	Other (see Other, below). Also, enter this code if more than one exception applies.

CWF Observation. The IRS should be listing a qualified HSA funding distribution as an exception as the 10% is not owed when there is a qualified HSA funding distribution. ◆

Qualified Medical Expenses from HSAs for Children of Divorced Individuals

An HSA is an individual ownership account. The same is true for an IRA. Although an HSA is an individual account, distributions incurred by the following family members will be qualified medical expenses:

1 The HSA owner and his or her spouse;
2. All dependents of the HSA owner claimed on his or her tax return; and
3. Any person the HSA owner could have claimed as a dependent on his or her return except that:
   a. The person filed a joint return,
   b. The person had gross income of $3,650 or more, or
   c. The HSA owner or his or her spouse if filing jointly, could be claimed as a dependent on someone else's return.

The IRS has adopted a special rule for children of divorced individuals. An HSA owner may pay the medical expenses of his or her child and have them be qualified medical expenses even though the HSA owner is not entitled to claim a tax exemption for such child. A child of parents who are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents regardless whether the custodial parent releases the claim to the child's tax exemption. ◆

How Many are Eligible to Make an IRA Contribution?

	Total of All Taxpayers	With Pension Coverage/W-2	Eligible to Make IRA Contributions
2004	184,171,487	65,841,897	144,909,585
2005	186,842,027	67,103,467	146,951,623
2006	191,648,854	68,517,356	149,236,656
2007	197,043,837	70,177,976	154,454,419
2008	196,091,724	70,795,560	152,418,963