

Know your IRA options

Traditional IRA or Roth IRA?

It's your choice. There's an IRA for everyone. This brochure will help you determine which may be right for you.



A wise decision

You may be just starting to save for retirement. Or perhaps you're looking for a way to add to what you've already saved, say, in an employer-sponsored retirement plan. Whatever your situation, you've made a wise choice to invest in your future.

After all, Social Security may only provide about 40% of the average wage earner's income in retirement. And it's up to each of us to come up with the rest. An IRA can be a valuable part of your overall financial strategy to meet your retirement needs.

Investing in an IRA

An Individual Retirement Account (IRA) is one way that you can save for retirement. Basically, there are two types: traditional and Roth. Anyone who earns income through employment can open an account, though which one(s) you qualify for will depend on your situation.

IRAs offer you flexibility in choosing the funds you want to invest in. There are also tax benefits, which vary with the kind of IRA you choose:

- **Traditional IRAs** offer you the benefit of **tax-deferred** growth, meaning you won't pay taxes on your account until you withdraw the money. You may qualify for a full or partial deduction for contributions on your tax return.
- **Roth IRAs** offer you the benefit of **tax-exempt** growth. You make contributions after you've paid federal income taxes, so you won't have to pay taxes again on your investment when you withdraw the money as long as certain conditions are met. (See "Step 1: Learn more about your IRA options" on page 4 of this brochure for details.)

Saving for retirement through an IRA is pretty simple. And it's never too late to start. In three easy steps, you'll be on your way.

Step 1: Learn more about your IRA options

Step 2: Determine your eligibility

Step 3: Work with a financial adviser

Before you open an account, you should know how much you can invest in an IRA each year.

IRA contribution limits*

	If you're younger than 50	If you're 50 or older
2008	\$5,000	\$6,000
2009	\$5,000	\$6,000

* Future contribution limits will be adjusted for cost-of-living increases.

If eligible, you can contribute to a traditional IRA and a Roth IRA as long as the combined amount stays within the applicable annual contribution limit shown in the table above. Please note that your ability to contribute to an IRA is based on income earned from your or your spouse's employment, and your contributions for the year cannot exceed that amount.

► Step 1: Learn more about your IRA options

The information below should give you a better understanding of which IRA may benefit you most.

Traditional IRA			
Is it right for you?	Pros	Cons	Noteworthy
<p>A traditional IRA may be appropriate for any investor under age 70½. It's also appropriate if you're rolling over any non-Roth portion of your retirement plan money when you change jobs or retire. And it's a good choice if you qualify for a current tax deduction (see Traditional IRA table in Step 2) or you expect to be in a lower tax bracket in retirement.</p>	<ul style="list-style-type: none"> ■ Your IRA earnings grow tax-deferred so more of your money goes to work for you immediately. ■ If you qualify for a tax deduction, it will reduce your current income tax liability. ■ You can take penalty-free early withdrawals if you are at least age 59½ or, possibly, if you satisfy certain other conditions (see "Noteworthy"). You'll still have to pay taxes on these withdrawals. 	<ul style="list-style-type: none"> ■ You cannot take a tax deduction on your contributions unless you meet the eligibility requirements. (For 2009, see Traditional IRA table in Step 2.) ■ Your deductible contributions and any earnings in the account are taxed as income when you withdraw them. ■ You cannot make contributions after age 70½. 	<ul style="list-style-type: none"> ■ You will incur taxes and a possible 10% federal tax penalty on withdrawals of your contributions and earnings unless you are at least 59½ or satisfy any of the following: taking withdrawals in periodic payments; purchasing a first home; paying higher education expenses, certain health insurance premiums or catastrophic medical expenses; or in case of disability or death. ■ You must start taking withdrawals (called required minimum distributions, or RMDs) from your account when you reach age 70½.
Roth IRA			
Is it right for you?	Pros	Cons	Noteworthy
<p>A Roth IRA is generally appropriate for investors who have a long time to save before retirement and who don't need an immediate tax deduction. It's also appropriate if you're rolling over any taxable portion of your retirement plan money when you change jobs or retire.</p>	<ul style="list-style-type: none"> ■ Earnings grow tax-free. ■ Contributions can be withdrawn at any time — tax-free and penalty-free. ■ You can take tax-free, penalty-free early withdrawals on your earnings if your account is at least five years old and you satisfy any of the following: you're 59½ or older; you're purchasing your first home; or in case of disability or death. ■ There is no maximum age limit for making contributions to the account as long as you (or your spouse) have income from employment. ■ You're not required to take withdrawals at age 70½. 	<ul style="list-style-type: none"> ■ You may be subject to a 10% federal tax penalty on earnings withdrawn early. ■ If your modified adjusted gross income (MAGI) (or yours and your spouse's combined) eventually exceeds the eligibility limit shown in the Roth IRA table in Step 2, you may no longer be able to make contributions to a Roth IRA. (You may then decide to open a traditional IRA.) ■ Rolling the taxable portion of your retirement plan money into a Roth IRA creates an immediate taxable event; that money is subject to income tax, but subsequent distributions (once qualified) are tax-free. 	<ul style="list-style-type: none"> ■ Withdrawals from your account are always taken first from your contributions (both penalty- and tax-free) and finally, when they're depleted, from earnings. ■ If you don't qualify for the early withdrawals described under "Pros," you can still take penalty-free early withdrawals (and pay the appropriate taxes on the earnings) if you take withdrawals that meet IRS guidelines or are paying higher education expenses, certain health insurance premiums or catastrophic medical expenses.



Did you know?

Deductions can reduce your income taxes for the year in which you make contributions to a traditional IRA, though you'll pay taxes on both contributions and earnings when you withdraw the money in retirement.



► Step 2: Determine your eligibility

The table on the left shows whether you qualify for a tax deduction by investing in a traditional IRA. The table on the right shows how much you can contribute to a Roth IRA depending on your or your spouse's income from employment. Both charts also take into account your spouse, if applicable.

Modified adjusted gross income (MAGI) is calculated by subtracting any unreimbursed business expenses and allowable adjustments (such as deductible IRA contributions or alimony payments) from your gross income. To determine your MAGI, find the adjusted gross income (AGI) on your last tax return and ask your tax adviser how it may be changed or modified by certain losses or deductions.

Traditional IRA 2009 tax deductibility	
Tax-filing status/MAGI	Your deductibility status
Filing single — covered by a retirement plan at work	
\$55,000 or less	Fully deductible
\$55,001–\$64,999	Partially deductible
\$65,000 or more	Nondeductible
Filing single — <i>not</i> covered by a plan at work	
All MAGI amounts	Fully deductible
Filing jointly — you are covered by a plan at work	
\$89,000 or less	Fully deductible
\$89,001–\$108,999	Partially deductible
\$109,000 or more	Nondeductible
Filing jointly — only your spouse is covered by a plan at work	
\$166,000 or less	Fully deductible
\$166,001–\$175,999	Partially deductible
\$176,000 or more	Nondeductible

Roth IRA 2009 contribution eligibility	
Tax-filing status/MAGI	How much you can contribute
Filing single	
\$105,000 or less	Full contribution amount
\$105,001–\$119,999	Partial contribution amount
\$120,000 or more	Not eligible
Filing jointly	
\$166,000 or less	Full contribution amount
\$166,001–\$175,999	Partial contribution amount
\$176,000 or more	Not eligible

Married and filing separately? If so, and your MAGI is between \$0 and \$10,000, you can make a partially deductible contribution to a traditional IRA (if you and/or your spouse are covered by a retirement plan) or a partial contribution to a Roth IRA (regardless of whether you're covered by a plan).

Married and not covered by a plan? If both you and your spouse do *not* participate in a retirement plan at work, you can make a fully deductible contribution to a traditional IRA regardless of your filing status or MAGI. Visit www.irs.gov and see *IRS Publication 590* for more information.



Are you 70½ or older?

If so, you are eligible to make contributions to a Roth IRA only, as long as you are still working and your MAGI is within certain limits. Check the Roth IRA table above to see if you qualify. If you don't qualify, ask a financial professional about other ways you can save and invest for retirement.



► Step 3: Work with a financial adviser

Now it's time to contact your financial adviser. The information you've learned in Steps 1 and 2 should help you to have a more meaningful two-way conversation with your financial adviser about the IRA that's right for you.

Investing in an IRA can be easy

A financial adviser will help you make informed decisions concerning your investments — and ensure that you complete all the necessary forms when you open your IRA account.

Once you've established your account, we encourage you to:

- Review your quarterly statements.
- Check in with your financial adviser once a year or so to see if you're still on track to meet your retirement goals.
- Discuss with your financial adviser whether you're still eligible to contribute to the IRA(s) you invest in. (For example, your age may require you to start taking withdrawals from your traditional IRA, or an increase in household income may preclude you from making further contributions to your Roth IRA.)
- Update your beneficiary information, if necessary.

About to change jobs or retire? If so, and you've been participating in your employer's retirement plan, you'll need to decide what you'd like to do with the money in your account. Ask your financial adviser for a copy of our *Keep Moving Forward* brochure, or visit americanfunds.com (Keyword: **protect**) to learn about your options, one of which is rolling your assets into an IRA. This strategy can help protect you from income taxes and potential penalties, while helping you to keep your retirement money growing tax-deferred (if you roll into a traditional IRA) or tax-free (if you qualify to roll into a Roth IRA).

Withdrawing your money can be more complex

At this critical point, your financial adviser can be of assistance. Before you make a move, ask your financial adviser about the best strategy for taking money out of your IRA. The IRS rules for withdrawals are complex — and a misstep can be costly. Your financial adviser will be able to help you minimize any taxes or penalties you may owe.

For more information about investing in an IRA, contact your financial adviser or visit americanfunds.com.
(Go to the "Retirement Planning" tab and click on "IRAs.")



Don't forget!

It's a common mistake — investors forget to name a beneficiary or update an old beneficiary designation. But should an unexpected tragedy occur, who will inherit your IRA account? You can decide how your IRA is passed on by naming a beneficiary. In the event you fail to name one, the IRA agreement that's part of your application will explain where it will go. Please be sure to complete the *IRA Beneficiary Form* to ensure your account is passed on as you wish.



Why choose an IRA that is invested in the American Funds?

Paying for retirement will most likely be the biggest expense you'll ever have. And it's the one time you cannot afford to end up short of money. American Funds understands this. That's why we encourage you to consult with a trained financial adviser — so you can be sure you're investing your money wisely.

For more than 75 years, American Funds has focused solely on providing our shareholders with consistent long-term results. This commitment has made us the investment of choice for millions of investors just like you.

Each of the American Funds that you may choose for your traditional or Roth IRA reflects our strict investment philosophy:

A long-term, value-oriented approach

American Funds seeks to buy securities at reasonable prices relative to their prospects and hold them for the long term.

An extensive global research effort

American Funds investment professionals travel the world to find the best investment opportunities and gain a comprehensive understanding of companies and markets.

The multiple portfolio counselor system

American Funds unique method of portfolio management, developed more than 50 years ago, blends teamwork with individual accountability and has provided us with a sustainable method of achieving fund objectives.

Experienced investment professionals

American Funds portfolio counselors have an average of 26 years of investment experience, providing a wealth of knowledge and experience that few organizations have.

A commitment to low operating expenses

The American Funds provide exceptional value for shareholders, with operating expenses that are among the lowest in the mutual fund industry.

Ask your financial adviser how each of these factors benefits you as an American Funds shareholder. You can also learn more about the American Funds at americanfunds.com.

You should carefully consider the investment objectives, risks, charges and expenses of the American Funds. This and other important information is contained in the funds' prospectuses, which are available from a financial professional and on the Web. Please read the prospectuses carefully before investing. Tax issues involving IRAs can be complex. Please consult your tax or legal adviser before making any decisions.