

Spotlight

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March 2010



The Year of the Roth IRA Conversion?

Starting in 2010, all taxpayers, regardless of income, are eligible to convert tax-deferred retirement assets to a Roth IRA. Prior to the change, the law prevented taxpayers with household incomes above \$100,000 from converting assets to a Roth IRA.

A Roth IRA is a retirement savings vehicle that differs from tax-deferred retirement accounts such as traditional IRAs and most employer-sponsored retirement plans. With a Roth IRA, you make contributions with after-tax dollars, but qualified withdrawals after age 59½ are tax-free. Furthermore, a Roth IRA does not require minimum annual withdrawals after age 70½. It should be noted that there are still annual income limits in place for determining eligibility to contribute to a Roth IRA. The income limitation was eliminated only for conversions.

To qualify for the tax-free and penalty-free withdrawal of earnings and amounts converted to a Roth IRA, the account must be in place for at least five tax years and the distribution must take place after age 59½ or as a result of death, disability, or a first-time home purchase (\$10,000 lifetime maximum).

Taxing Choices

When you convert tax-deferred assets from a traditional IRA and/or a former employer's 401(k), 403(b), or 457 plan, there may be tax consequences. Please be sure to consult your tax advisor before making a decision. If you are younger than age 59½ and pay the taxes from money that is not in the tax-deferred account (the recommended option), you can avoid a 10% federal income tax penalty.

Fortunately, you have options when it comes to paying the taxes on a Roth IRA conversion. In 2010 only, you can convert eligible retirement assets to a Roth IRA without having to claim the amount as income on your 2010 tax return. If you elect to do this, you must declare half of the converted amount as income in 2011 and the other half as income in 2012. In this way, you wouldn't have to start paying taxes on a 2010 Roth IRA conversion until April 15, 2012.

However, by deferring the taxes on a 2010 conversion, the converted amount will be taxed at the income tax rates in effect in 2011 and 2012. As it stands, tax rates are scheduled to increase in 2011. Unless Congress acts to avert the tax rate increase, the taxes on Roth IRA conversions will be higher after 2010.

Also consider whether converting a sizable amount to a Roth IRA could move you into a higher tax bracket. If so, you may decide to convert smaller amounts over a period of several years.

If you have IRAs into which you have made both deductible and nondeductible contributions, the tax implications of a Roth IRA conversion can become complicated. It may be prudent to consult a tax professional.

You Can Change Your Mind Later

If you change your mind after utilizing a Roth IRA conversion, you can elect a "do over," called a recharacterization. The assets would be converted back to tax-deferred status and you can file an amended tax return seeking a refund of the income taxes you paid on the conversion. In order to qualify, you must recharacterize the funds before October 15 of the year following the year in which you converted.

Roth IRA conversions offer the potential for tax-free income in retirement for taxpayers at all income levels. If you want more information about converting to a Roth IRA, call today. It's critical to review your individual situation before making a decision about moving important assets.

For more information about converting your IRA, please call 301-863-7071 and ask for Dora (ext. 227), or Michele (ext. 232). They will be happy to assist you in making an appointment with a Registered Representative who can help you decide what is best for you.

The information in this article is not intended as tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Emerald. © 2009 Emerald.



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The Basics of Estate Planning

A Free Seminar presented by

Joann Wood of Dugan, McKissick, Wood and Longmore, LLC

Focus of the workshop is planning for and protecting your estate.

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Wednesday, March 17, 2010 - 11:00 AM

22745 Maple Road • Lexington Park, MD 20653

Bring your lunch - drinks and desserts provided

Call 301-863-7071 ext 227 or 232 today to reserve your seat!



Cedar Point Expands to Serve The Community of Southern Maryland

December 2009 was a very exciting month for your Credit Union. On December 1 we opened our newest office in Charlotte Hall, and on December 17, after many years of effort, the management of Cedar Point received this notice:

Section 5 of the Charter of the Cedar Point Federal Credit Union is hereby amended to read as follows:

"The field of membership shall be limited to those having the following common bond:

CONVERTED TO COMMUNITY CHARTER 12/17/09

1. Persons who live, work (or regularly conduct business), worship, or attend school in, and businesses and other legal entities located in Calvert, Charles, and St. Mary's Counties, Maryland; converted to community charter 12/17/09

With this expansion, Cedar Point can now serve anyone who lives, works, worships or does business regularly in any of the three counties of Southern Maryland from any of our branch offices or our Headquarters Building in Lexington Park:

Headquarters & CPFS, Inc.

22745 Maple Road
Lexington Park, MD 20653
301-863-7071 or 800-201-1647
301-863-0137 (Fax)

Lexington Park Office

21748 Three Notch Road
Lexington Park, MD 20653
301-863-7027 • 301-863-6653(Fax)

Prince Frederick Office

Prince Frederick Center
Prince Frederick, MD 20678
410-414-3086 • 410-414-3229(Fax)

Patuxent River Office

Building 3144, NAS
Patuxent River, MD 20670
301-863-0005 • 301-863-7181(Fax)

Leonardtown Office

25910 Point Lookout Road
Leonardtown, MD 20650
301-863-0042 • 301-863-0020(Fax)

Charlotte Hall Office

30330 Three Notch Road
Charlotte Hall, MD 20622
301-884-4074 • 301-884-4243(Fax)

If you have any questions about membership eligibility or any of the services we offer, please call us at 301-863-7071, or send an email to cpfcu@cpfcu.com. We always strive to respond as quickly as possible to your messages.

For Your Information

As of November 30, 2009

Loans \$158,024,611
Assets \$302,837,744
Shares \$266,256,565
Members 29,249



Registered representative of and securities and investment advisory services offered through Homer, Townsend & Kent, Inc. (HTK), Registered Investment Advisor, Member FINRA/SIPC, 307 International Circle Ste. 100, Hunt Valley, MD 21030, 410-821-2920. Securities are not insured by the FDIC, NCUA or any other bank or credit union insurance; are not deposits or other obligations of the financial institution and are not guaranteed by the financial institutions; and are subject to investment risks, including possible loss of the principal invested. CPFCU/CPFS is not affiliated with HTK.

Life, Health and Disability insurance is provided by Capital Financial Partners LLC
CFP (Capital Financial Partners LLC) is licensed to sell life, health & disability insurance in MD, VA, PA, DC, NJ

Group life insurance is issued and underwritten by American United Life Insurance Company, (AUL) and Cedar Point Federal Credit Union is compensated for marketing AUL's products. You can learn more about AUL and its products by viewing its website at www.aul.com

Insurance coverage is Not a Deposit, Not Guaranteed by the Credit Union, Not Insured by Any Federal Government Agency, and Not NCUA/NCUSIF Insured.