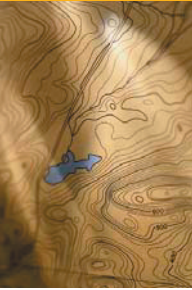


Strategic Insights



Funding Education with a Roth IRA

Saving for their children's education is a primary financial concern for most young parents. A Roth Individual Retirement Account (IRA) may be an attractive retirement vehicle for them to use.

- ◆ 2008 \$5,000
- ◆ After 2008 \$5,000 + annual cost of living increments of \$500

2. The annual contribution limit is reduced dollar for dollar by contributions to a traditional IRA.
3. The maximum annual contribution is subject to a prorata phaseout for taxpayers filing jointly with modified adjusted gross incomes between \$150,000 and \$160,000 (for single taxpayers with modified adjusted gross incomes between \$95,000 and \$110,000.)



Withdrawals from a Roth IRA

1. Withdrawal of accumulated contributions from a Roth are tax-free.
2. Withdrawal of earnings prior to age 59 ½ are subject to income taxation, but are not subject to the 10% penalty if the money is used for qualified expenses.
3. Qualified education expenses include: fees, tuition, books and supplies.

Benefits of a Roth IRA

Reasons for choosing a Roth include:

Contributions to a Roth IRA

1. Nondeductible contributions to a Roth are allowed up to the lesser of 100% of compensation or the following limits:
 - ◆ 2002-2004 \$3,000
 - ◆ 2005-2007 \$4,000

- ◆ Contributions can be withdrawn income tax and penalty free.
- ◆ Earnings used for "Qualified Education Expenses" are penalty free.

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- ◆ Ability to select any educational institution in any state.
- ◆ No requirement to specify a beneficiary.
- ◆ Residual not used for education purposes can provide post 59 ½ income tax free distributions for retirement.

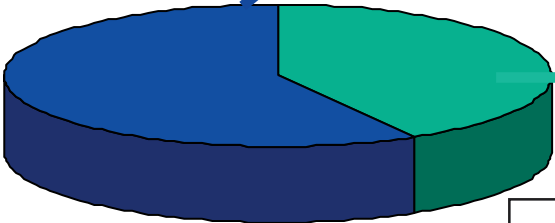
Case Example

- ◆ Clients, Fred and Amy, ages 25 and 24, have just had their first child, Steve.
- ◆ In 2002 Fred begins making maximum¹ contributions to a Roth IRA in January of each year for 18 years.²
- ◆ When Steve is ready for college, Fred's Roth IRA will have grown to \$136,317.
- ◆ His accumulated contributions of \$84,000 can be withdrawn for college expenses, tax-free. Withdrawn earnings are taxed, but escape the 10% penalty.
- ◆ If we assume Steve only uses \$84,000 for college expenses, the remaining \$52,317 can be left to grow until Fred's retirement at age 60 (17 years).
- ◆ If no additional contributions were made to the Roth IRA, it would grow to \$130,754.



Maximum contribution per year at 4.65% grows to \$136,317 in 18 years

\$84,000 total contributions = tax-free withdrawals



\$52,317 gain

¹Maximum Contribution limits for Roth IRA
 -2002 - 2004 = \$3,000
 -2005 - 2007 = \$4,000
 -2008 - thereafter = \$5,000

²Roth IRA funded with a typical fixed annuity illustrated to compound at a non-guaranteed rate of 4.65%.

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