

.....CPS BULLETIN.....

The Newsletter of CPS Actuaries and Computer Programming & Systems, Inc.

Volume 3, Issue 4

April, 2003

Introduction

This issue of *CPS Bulletin* marks the conclusion of our 3rd year of publishing this newsletter. We hope to continue to bring you timely articles regarding fraternal and computer-related issues. All prior issues of *CPS Bulletin* can be viewed on our web site at www.cpsincorp.com.

Our first article in this issue provides an overview of the IRS filing requirements for deferred annuities that are issued as IRAs. The IRS requires you to report to them certain information regarding the IRAs that you have issued. As we near the IRS's May 31 deadline for filing certain forms, this article provides a timely reminder of the type of information that has to be reported to the IRS and the member.

Our second article indicates that Microsoft will soon be discontinuing support of Windows NT and Windows 98. While you may not be having any problems with your operating system, the article points out some of the perils you may face if you do not periodically upgrade your computer to a current operating system.

We hope that you continue to enjoy our newsletter and we welcome any suggestions on how to improve it. ❖

Administering the IRA the IRS Way

Many societies have been issuing deferred annuity plans as IRAs in recent years. This article reviews the IRS reporting requirements for IRAs and the recent changes to the IRA contribution limits. Please note that this summary is necessarily brief and cannot deal with every single aspect of these contracts.

There are 6 possible events that can occur over the lifetime of an IRA and the IRS requires a form to be completed for each such event:

Event	Reporting Form by Administrator	Due Date for When Society Must File Forms
Tax- deductible Contribution	5498	To IRS: May 31; Provide Member with statement by Jan 31
Withdrawal / Death	1099-R	Member: Jan 31 IRS Feb 28 (paper) IRS: Feb 28 (electronic)
Required Minimum Distribution	Non-specific for 2003; See IRS notice 2002-27	To Member: Jan 31
Transfer in / Rollover	5498 (same as Tax-Deductible contribution)	To Member: Jan 31 To IRS: May 31
Transfer out	1099-R (same as Withdrawal / Death)	Member: Jan 31 IRS Feb 28 (paper) IRS: Feb 28 (electronic)
Non- Deductible Contribution	5498 plus 8606 by owner	Form 8606 is filed with the individual owner's 1040.

INSIDE THIS ISSUE

- 1 Introduction
- 1 Administering the IRA - The IRS Way.
- 3 Microsoft Generations – Practical Aspects.
- 4 Regulation Update
- 4 Interest Rate Monitor
- 4 About CPS

See *IRS Way* on page 2

All of the dates in the above table refer to the dates in the year following the year in which the contribution/withdrawal was made.

Form 5498 is required for all members with an IRA **regardless of whether or not a contribution has been made in the given year**. It is required even for rollovers, transfers, recharacterizations (where the participant transfers part of his IRA to another IRA with the same trustee, including an IRA conversion to a Roth IRA), conversions (i.e., from traditional IRA to Roth IRA) and revocations. The only exceptions to filing form 5498 are direct trustee-to-trustee, contract-for-contract transfers (such as SEP to SEP or Roth to Roth) and a transfer to a spouse on divorce or death where the spouse makes the IRA her or his own by making contributions or not taking required distributions. Form 5498 asks for basic information, including the issuer's TIN, the participant's name, address, SSN and the contribution (if any) made for the year of filing. The contribution is classified as an IRA, Roth, Coverdell (formerly education IRA), SEP, SIMPLE, Rollover or Recharacterized contribution. It also asks for the fair market value of the account. As indicated in the above table, Form 5498 must be furnished to the IRS by May 31 (with a copy to the member) and the member must receive a statement by January 31 notifying him or her of the value of the account (and any contribution made for the year). The statement to the member can be in any written format.

Form 1099-R is used to report any payments from an IRA. It is the flip-side of the Form 5498 filing since the IRS hopes to match up all the 1099-Rs with the Form 5498s to enforce compliance. For example, a Section 1035 exchange will only be exempt from the 1099-R requirement if it is a direct trustee-to-trustee, contract-for-contract transfer. Besides the required basic information regarding the recipient of any annuity distribution, the 1099-R form asks for the Gross Distribution and the Taxable Amount. This latter amount should only be inserted if the fraternal is certain it is correct, such as an account resulting from a direct rollover. If you are not sure, the taxable amount should be left blank and box 2b should be checked. Please note that the form is subject to all the general requirements relating to all forms 1099.

That means that electronic transmittal is required wherever the issuer has more than 250 1099-Rs, and if less, cover form 1096 should be used for paper transmittals. Electronic filings of the 1099-Rs are due March 31 and paper filings are due February 28.

The IRS has been taking steps to increase its enforcement of the filing provisions of IRA type contracts. It is beginning to require that participants be notified of their required minimum distribution (RMD) amounts and will be aiming to ensure that this information is reported since that is the phase where the IRS gets its tax bite. For 2003, the trustee or administrator must report the RMD to the IRA holder (not the IRS). In 2004, the trustee or administrator will be required to identify the RMD on Form 5498.

We will conclude this article by reviewing the current rules for tax deductibility of IRA contributions. These amounts will be significantly increased in 2005.

With a traditional IRA, you may contribute, for 2003, up to \$3,000 (\$3,500 if age 50+) of earned income up to age 70½. You may also be able to roll over funds from another institution's retirement plan, from government and corporate-sponsored pensions, and from other IRAs. Earnings will be tax-deferred until you begin receiving income payments or make a withdrawal. Regardless of income, you may deduct the full maximum contribution if you and your spouse aren't active participants in an employer-sponsored retirement plan. If you are a member of an employer-sponsored plan, you may still be able to deduct the full amount if you are a single filer and your income is \$40,000 or less (\$60,000 or less for couples filing jointly). Deductibility of contributions phases out as income rises from \$40,000 to \$50,000 if you are a single filer and \$60,000 to \$70,000 for couples filing jointly.

The same contributions may be made to a Roth IRA by a single filer whose adjusted gross income is \$95,000 or less (\$150,000 or less for couples filing jointly). The contribution allowance is progressively reduced for single filers with incomes between \$95,000 and \$110,000 (\$150,000 and \$160,000 for couples filing jointly).

You should review your IRA Disclosure Statements to be sure that they recognize the new limits. ❖

Microsoft Generations - Practical Aspects

When you buy a personal computer (as opposed to a Mac), you license an operating system (OS) from the Microsoft Corporation. Microsoft does not sell you the OS. Most of us are familiar with the names of these operating systems. Microsoft's first OS was called DOS. This was replaced by Windows 3.0, then Windows 95 and then Windows 98. Since then, Microsoft has developed a number of new OSs, including Windows NT, Windows Me, Windows 2000 and the current OS standard, Windows XP. Once a new OS is adopted, Microsoft continues to support the prior versions for a period a time, but all new computers that are purchased come with the most current OS. Currently, that OS is Windows XP. For example, you can no longer purchase a new computer with the Windows 98 OS and at the end of this year, Windows Me will no longer be available.

For current operating systems Microsoft continually works to improve its software, develops updates and fixes any recognized issues. On a regular basis, many of these fixes are combined into a single package and the package is made available for installation. These packages are called "service packs". Service packs are cumulative, which means that each new service pack contains all of the fixes that are included with previous service packs and any new fixes, and you do not have to install a previous version of a service pack before you install the latest version. It is worthwhile to periodically update your operating system and the Microsoft web site will advise the user when the next service pack is likely to be ready.

Once an OS is no longer available on a retail basis, Microsoft continues to support the system for a limited period. That means that authorized users can still get questions answered by Microsoft technicians. Windows NT will be reaching the end of its support period on June 30, 2003, Windows 98 on January 16, 2004 and Windows Me on December 31, 2004.

After those dates, Microsoft will no longer answer questions. However, they will still offer fixes online for an additional period of one year for each of these operating systems. Thus, patches to the system will continue to be available for download to correct, for example, security vulnerabilities (e.g. to counter

viruses).

Since most non-professional users do not religiously download the latest improvements (updates) to the system and call upon their friendly computer guru when they have a problem rather than do battle with the Microsoft help-line, how does this affect most users in practice?

Firstly, if you run into a serious problem, your friendly computer guru may himself require access to Microsoft resources and if these are not available, then the system might be unmanageable.

Secondly, if you wish to acquire new peripherals for your computer such as a new printer, you might find that drivers are no longer written for an earlier OS. Drivers are the files that interface a computer with a printer and if there is no appropriate drivers then the computer and printer will not be able to communicate; the result is that you will be unable to print.

Lastly, many software writers will endeavor to tailor their programs to enable usage by as many users as possible. However, there may come a point at which they may no longer be able to do so because access to the Microsoft database is not available. For example, Quickbooks, a popular accounting software, is no longer offered for Windows 95 users.

Thus, if you have a computer with a Windows 98 OS and foresee the need for a faster and better printer and have analyzed your needs and decided that you do not wish to invest in a new computer at this stage, then you may well be advised to buy your new printer now while the drivers are still available.

We have discussed in prior issues of *CPS Bulletin* that there are new technologies that require the use of current operating systems such as new camcorders and digital cameras. The question thus arises as to whether or not it would be desirable to upgrade to Windows 2000 or XP, without investing in a new computer or software.

The answer is yes, with qualifications.

It is likely that software currently on the market may be compatible with the above operating systems and if not,

See *Microsoft Generations* on page 4

one may find that the requisite drivers can be obtained either via a CD-Rom from the manufacturers or, as is now common, via a download from the manufacturer's web site. However, some older software you use on your current machine may require an upgrade, which may be expensive.

In addition, the new operating systems are rather bulky. Windows XP requires a minimum of 128 MB of memory and 256 MB is recommended. This brings us back to the theme of upgrading one's PC discussed in the December 2002 *CPS Bulletin*. Moreover, XP works best when it is installed on a newly formatted hard-drive rather than through an upgrade from, say Windows 98.

All in all, there are pros and cons on all approaches. If you wish to discuss this further you may call the computer professionals at CPS who will be glad to answer your questions. ❖

Interest Rate Monitor

The following are some key interest rate benchmarks:

<i>Benchmark</i>	<i>Current</i>	<i>3 Months Ago</i>	<i>1 Year Ago</i>
Fed Funds	1.31%	1.06%	1.81%
Prime Rate	4.25%	4.25%	4.75%
30 yr mortg	5.42%	5.56%	6.36%

Source: www.bloomberg.com as of 4/28/2003

About CPS

CPS Actuaries and Computer Programming & Systems, Inc.
CPS is an independent company with over 35 years of service to our clients. We offer a wide range of computer and actuarial services, including:

- Policy administration software
- Computer networking services
- Actuarial valuations
- Annual Statement preparation
- Illustration software

For more information, please call us at **203-324-9203**, or visit our web site at www.cpsincorp.com. ❖

CPS, Inc.
1014 Hope Street
Stamford, CT 06907

Regulation Update

In this section we are providing an update on a couple of "hot" topics.

Update on USA Patriot Act

As we reported in the October 2002 *CPS Bulletin*, the Act was signed into law in October, 2001 and companies were given until September 2002 to comply after a 6 month extension granted in April 2002. In September 2002, proposed rules were published and the insurance industry was given 60 days in which to submit comments. In October, 2002 another extension was given because, according to the Treasury Department, "it would be inappropriate to require financial institutions to implement anti-money laundering programs while the rules are still being drafted". Thus, compliance with the USA Patriot Act is not required until final regulations are in place. Based on the date of the last extension, such regulations should be issued very soon.

Non-Profit Postal Rates

In 1991, a dispute occurred between Aid Association for Lutherans ("AAL") and the United States Postal Service ("USPS"). The USPS issued a regulation interpreting the Postal Reorganization Act of 1970 that barred the use of reduced non-profit, third-class postage rate for mailings promoting any insurance policy if "the coverage provided by the policy" is "generally otherwise commercially available".

As a result, the USPS decided that AAL was no longer entitled to mail their insurance-related material at non-profit rates.

The AAL sued the USPS. On March 14, 2003, the Court of Appeals of the District of Columbia Circuit rendered its opinion, in which it affirmed the judgment of the District Court. The Court held that the Postal Reorganization Act "unambiguously indicates an intent for non-profits to continue to mail insurance-related materials at reduced rates". The regulation of the USPS constituted an impermissible constriction. Hence, there is no longer any basis for any postmaster to deny non-profit postage rates for fraternal mailings. ❖