Individual Retirement Account (IRA)

Investing in Your Future with The Royce Funds

An IRA is a Powerful Retirement Planning Tool

The importance of sound financial planning for retirement cannot be overstated. It is critical because social security, 401(k)s and pensions alone may not provide you with enough income to support your lifestyle when you retire.

How much will be enough?

As a rule of thumb, estimate that when you retire you will need about 70% of what you spend before retirement. That's a substantial sum, especially when you consider that most of us hope to be retired for 20 years or more.

IRAs have tax advantages

The tax advantages offered by Individual Retirement Accounts, IRAs, can make a big difference in how well prepared you are to finance a comfortable retirement. Your IRA earnings are tax-free or tax-deferred (depending on which type of IRA you choose), which means that federal and state taxes are not deducted. With more after tax income, your money can grow faster. You can contribute to your IRA every year that you earn income, and you choose where it should be invested.

- Traditional IRAs are tax deferred; earnings are not taxed until they are withdrawn.
- Roth IRAs go one better. Earnings are tax-free: no tax is owed on earnings as they accumulate or when money is withdrawn.

IRAs offer greater flexibility and more valuable benefits than in the past. Because investing in an IRA is so important to your financial future, and somewhat complicated, we suggest that you also consult your financial advisor and a tax professional before you make a decision. This brochure highlights your IRA options. A detailed discussion of Individual Retirement Accounts can be found in the Disclosure Statement and Custodial Agreement, which, along with a prospectus, is included in this kit. Read these documents carefully before you invest.

Investing for retirement requires long-term commitment. No matter which type of IRA you choose, it's important that you start today and put time on your side.

Traditional IRAs

Tax deferred earnings growth

A Traditional IRA gives you several tax benefits. Earnings are not subject to federal income tax until withdrawn. You may be able to deduct all or part of your Traditional IRA contribution on your federal income tax return. You can also set up a Traditional IRA for your spouse whether or not he or she earned income in that year.

Making Traditional IRA contributions

To contribute, you must have earned income and be under 70½ years old. You can make contributions to your account any time during the calendar year and until April 15 of the following year. You can contribute up to the lesser of your IRA Contribution Limit or 100% of your earned income. People who are age 50 and over can also make special "catch-up" contributions of $1,000 per year to a Traditional IRA. Your catch-up limit is added to your normal IRA Contribution Limit for each year.

Maximum allowable annual contributions

- Contribution Limit: $5,500
  (Plus potential cost-of-living increases)
- "Catch Up" contributions for investors over age 50: $1,000

Your contribution may also be tax deductible

Part or all of your contribution to a Traditional IRA may be deductible if:

- you do not participate in an employer-sponsored retirement plan like a 401(k)
- you do participate in an employer-sponsored plan, but your income is below federal limits
- you are married and your spouse is not an active participant in an employer-sponsored retirement plan, the contribution to your spouse's Traditional IRA may be deductible

Cost of Living Adjustments

Annual limitations for IRA contributions, Modified Adjusted Gross Income (MAGI) deductibility limits for those who are active participants in employer plans and those seeking an income tax credit for retirement saving contributions, have slightly different indices than are used for determining Cost-of-Living Adjustments in employer plans. The current Cost-of-Living Adjustments are as follows:

- Single active participant: $63,000 - $73,000
- Married active participant filing a joint income tax return: $101,000 - $121,000
- Spouse of an active participant: $189,000 - $199,000[1]
- Income Limit: For those participating in an employer-sponsored retirement plan, the ability to make a deductible contribution phases out at income levels of $63,000 to $73,000 (individual taxpayer) and $101,000 to $121,000 (married taxpayers filing jointly)

Withdrawals from your Traditional IRA

You may withdraw from your Traditional IRA at any time. However, withdrawals before age 59½ may be subject to a 10% penalty tax in addition to regular income taxes. When you reach age 70½, you must make minimum withdrawals in order to avoid tax penalties.

[1] Adjusted gross income includes foreign earned income and income from Guam, American Samoa, North Mariana Islands and Puerto Rico.

Roth IRAs

Tax-free earnings growth

Roth IRAs offer you an opportunity to save for retirement tax-free: earnings grow tax-free, and qualified withdrawals are not subject to income tax. If you meet the eligibility requirements you can also set up a Roth IRA for your spouse, regardless of whether your spouse had any compensation or earned income in that year. (Of course, if your spouse earned income, he or she can establish his or her own Roth IRA.)

Making Roth IRA contributions

Contribution limits are the same for Traditional and Roth IRAs; up to $5,500 plus cost of living adjustments. You can make contributions to your account any time during the year and until April 15 of the following year. And people who are age 50 and over can also make special "catch-up" contributions of $1,000 per year to a Roth or Traditional IRA. Your catch-up limit is added to your normal IRA Contribution Limit for each year.

Key differences between contributing to a Roth versus a Traditional IRA

- Contributions to a Roth IRA are not tax deductible.
- You may continue making contributions to a Roth IRA after you reach age 70½.
- Your Roth IRA limit is reduced by any contributions for the same year to a Traditional IRA. For example, if you contribute $500 to your Traditional IRA for one year, your maximum Roth IRA contribution for that year will be $4,500.
- People with high income levels may not be able to contribute to a Roth IRA, or their allowable contribution amount may be limited.

Cost of Living Adjustments

Annual limitations for Roth IRA contributions, Modified Adjusted Gross Income (MAGI) deductibility limits for those who are active participants in employer plans and those seeking an income tax credit for retirement saving contributions, have slightly different indices than are used for determining Cost-of-Living Adjustments in employer plans. The current Cost-of-Living Adjustments are as follows:

- Single individual: $120,000 - $135,000
- Married individual filing a joint income tax return: $189,000 - $199,000[1]
- Income Limit: Ability to contribute phases out at income levels of $120,000 to $135,000 (individual taxpayer) and $189,000 to $199,000 (married taxpayers filing jointly)

Withdrawals from your Roth IRA

Withdrawals from your Roth IRA are not taxable as long as the withdrawal is a qualified distribution—generally, if your account has been open for five years, and you are age 59½ or older. Unlike Traditional IRAs, you are not required to begin taking minimum distributions from your Roth IRA when you reach age 70½.

Converting a Traditional IRA into a Roth IRA

You can convert an existing Traditional IRA into a Roth IRA in three ways:

- Withdraw the amount you want to convert from your Traditional IRA and roll it over to a Roth IRA within 60 days.
- Establish a Roth IRA and then direct the custodian of your Traditional IRA to transfer it to the new Roth IRA.
- Convert an existing Traditional IRA with UMB Bank, N.A. as custodian to a Roth IRA. Royce can convert your existing account when the new Roth IRA account has been established.

Anyone, regardless of income or filing status, can convert money from a traditional IRA to a Roth IRA.

Transfers and Rollovers

Key Questions

When you change jobs or retire, you are faced with making an important decision about what to do with the money you have saved for retirement. The rules governing rollovers are complicated. Consider the information in this brochure and then discuss your options with your tax consultant or the IRS. Most distributions from employer plans, 403(b)s, or 457 plans are eligible for rollover to a Traditional IRA. However, certain distributions from these plans would not be eligible for rollover to a Traditional IRA including if those distributions are either:

- payments over the lifetime or life expectancy of the participant (or participant and a designated beneficiary), or
- installment payments for a period of 10 years or more, or
- required distributions (generally the rules require distributions starting at age 70½ or for certain employees starting at retirement, if later), or
- hardship withdrawals from a 401(k) plan or a 403(b) arrangement.

What is a direct rollover?

If you are eligible to receive a distribution from a tax qualified retirement plan as a result of, for example, termination of employment, plan discontinuance, or retirement, all or part of the distribution may be transferred directly into your Traditional IRA. This is a called a "direct rollover." You may also receive the distribution and make a rollover to your Traditional IRA within 60 days. By making a direct rollover or a regular rollover, you can defer income taxes on the amount rolled over until you subsequently make withdrawals from your Traditional IRA.

Can I make a rollover from my Traditional IRA to another Traditional IRA?

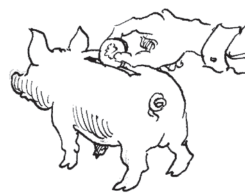
Yes. You have 60 days after the withdrawal from your first Traditional IRA to complete the rollover. Note that you must wait a full year before you can make another such rollover.

May a rollover or transfer include after-tax or nondeductible contributions?

Yes. After-tax contributions can be rolled over or transferred from another Traditional IRA, a qualified employer plan or a 403(b) to a Traditional IRA.

Do rollovers affect my contribution or deduction limits?

No. Also, rollovers are not deductible and do not affect your deduction limits.



All of this information is provided as an overview of the benefits and features of IRAs. Each feature is complicated, and it is important to understand all of the relevant details. For a comprehensive discussion of the important details about Traditional IRAs, Roth IRAs, IRA Conversions and Transfers and Rollovers be sure to read the enclosed Disclosure Statement and Custodial Agreement carefully.

Deciding Which IRA is Right For You

The information contained in this brochure is intended to provide you with the basic information you will need to decide whether a Traditional or Roth IRA is better for you. We suggest that you consult with a qualified financial advisor and a tax professional to help you make your decision. Your tax advisor can also inform you of important state tax consequences to consider. The table below offers an at-a-glance comparison that may be helpful as you and your advisor consider your retirement planning needs.

At-A-Glance Comparison

	Traditional IRA	Roth IRA
Eligibility	• Under age 70½ and working • Non-working spouse may also qualify	• Any age and working • Non-working spouse may also qualify
Tax Treatment of Contributions	• Subject to limitations, contributions are deductible	• Contributions are not deductible
Contributions/Income Limits	• $5,500 for investors under age 50, and $6,500 for those age 50+	• $5,500 for investors under age 50, and $6,500 for those age 50+
Earnings Tax Advantage	• Earnings grow tax-deferred	• Earnings grow tax-free, and qualified withdrawals are not subject to tax penalties or income tax
Withdrawals	• Minimum withdrawals must begin after age 70½ • Earnings and deductible contributions are taxable as income in year withdrawn	• Minimum withdrawals not required after age 70½ • Not taxable as long as the withdrawal is a qualified distribution—generally, account has been open for five years, and the individual is age 59½ or above

Which Form Should You Fill Out?

To set up a new IRA Account:

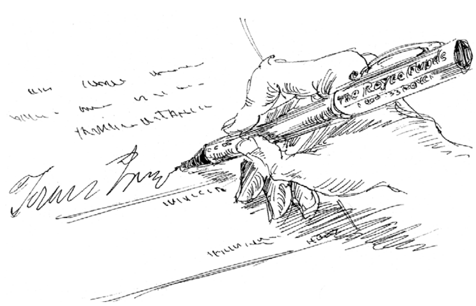
IRA Application (Adoption Agreement)

To move your existing IRA to The Royce Funds:

IRA Application (Adoption Agreement) and IRA Transfer of Assets Form

To move assets from another institution to your existing Royce IRA account:

IRA Transfer of Assets Form



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Fund Materials and
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About the Royce Funds

Small-cap specialist with unparalleled knowledge and experience, offering distinct investment approaches to meet a variety of investors' goals.

Unparalleled Knowledge + Experience
Pioneers in small-cap investing, with 40+ years of experience, depth of knowledge, and focus.

Independent Thinking
The confidence to go against consensus, the insight to uncover opportunities others might miss, and the tenacity to stay the course through market cycles.

Specialized Approaches
Strategies that use value, core, or growth investment approaches to select micro-cap, small-cap, and mid-cap companies.

Unwavering Commitment
Our team of 16 portfolio managers have significant personal investments in the strategies they manage.

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