J.P.Morgan

Don’t Miss Out: Five Strategies for Getting the Most Out of Your IRA

For some investors, even the maximum contribution to an IRA may seem too small to make a real difference. But over time, the compounded growth of those dollars can have a big impact for investors at any income level.

Getting the Most From Your IRA

You may be surprised to learn about all the ways you can put an IRA to work to maximize retirement savings. Here are five savvy strategies you can use to “max out” your IRA and avoid missing out on potential tax-deferred growth.

1. Contribute early in the year.

By contributing as early as possible, you can take advantage potential compounded growth. You can gain additional months of compounding by making your 2019 IRA contribution as soon as possible instead of waiting until the contribution deadline.

If you haven’t already made your 2018 contribution (due by April 15, 2019), consider making your 2018 and 2019 contributions at the same time. If you aren’t able to make your maximum 2019 contribution all at once, now is a good time to establish a savings plan for the year ahead.

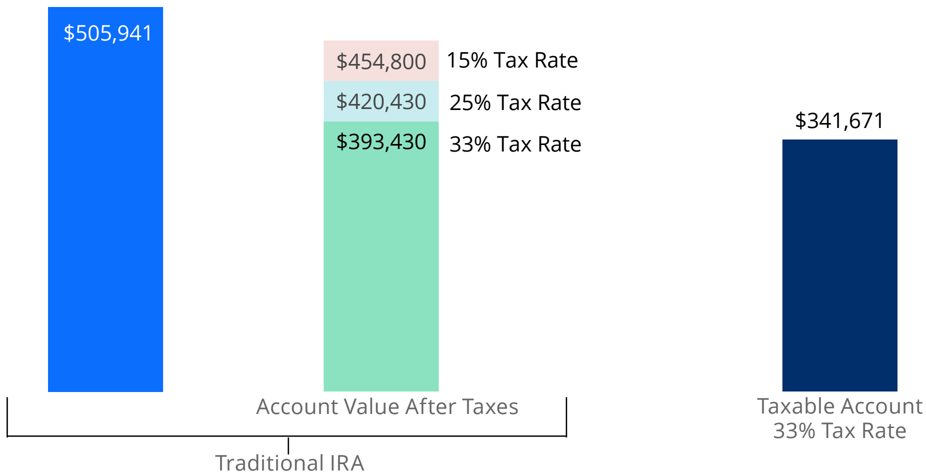
> “If you aren’t planning on making an IRA contribution this year, think again. Even if your contribution isn’t tax-deductible, every dollar you contribute is a step toward achieving the retirement you want. And every dollar you don’t contribute is a lost opportunity.”

2. Contribute for a nonworking spouse.

You may be able to double your opportunities to save by contributing for your spouse, even if he or she doesn’t have any earned income. If you’re married, have enough earned income, and file a joint tax return, you can contribute for both yourself and your spouse. This is a good way to add to your family’s retirement savings if, for example, your spouse has left the workforce to raise a family. And if you make your 2018 and 2019 contributions at the same time, compounded over time, that dollar amount can generate meaningful savings. Please note, in considering which retirement account may be appropriate for your retirement planning, that contributions to Traditional IRAs may or may not be deductible. Contributions to Roth IRAs are never deductible. See page 3 for more information.

The power of tax-deferred compounding

Tax-deferred retirement accounts provide added savings benefits vs. taxable accounts



If you contributed $5,500 each year for 30 years in a Traditional IRA, assuming 6.5% returns, your account would have grown to $505,941. Assuming you paid taxes on earnings at withdrawal, you would have $454,800, $420,706 or $393,430 in after-tax dollars at the 15%, 25% and 33% federal tax rates, respectively. However, if you had contributed to a taxable account, you would have ended up with only $341,671. That's the power of tax-deferred compounding.

Source: J.P. Morgan Asset Management. Assumes $5,500 after-tax contributions at the beginning of each year for 30 years and 6.5% annual investment return. IRA account balance is taken as a lump sum and taxed at the 15%, 25% and 33% federal tax rate, respectively, at time of withdrawal. Taxable account contributions are after-tax and assume a 33% federal tax rate during accumulation. This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees, expenses or early withdrawal penalties.

The chart is shown for illustrative purposes only. Past performance is no guarantee of future results.

3. Take advantage of "catch-up" contributions.

A simple strategy can help those age 50 or older who would like to close the gap and save more for retirement: catch-up contributions. If you're age 50 or older, you can maximize your IRA savings each year by adding $1,000 to the maximum contribution. Note that you can no longer contribute to a Traditional IRA starting with the year you turn 70½. While there are no age limits on Roth IRA contributions, you must meet the IRS income eligibility rules.

Traditional vs. Roth IRAs: Key differences and similarities

Features	Traditional IRA	Roth IRA
Tax-deferred Investment Growth	Investment growth is tax-deferred in Traditional and Roth IRAs.	
Maximum Annual Contribution	Your total contributions to all of your Traditional and Roth IRAs cannot be more than: **2018:** 100% of earned income[1] up to $5,500 ($6,500 if age 50 or older). **2019:** 100% of earned income[1] up to $6,000 ($7,000 if age 50 or older).	
Age Limit to Contribute	Must be under age 70½ in the year of the contribution.	There is no age limit.
Income Limits to Contribute	There are no income limits for contributions, though not all contributions are tax-deductible.	Limitations as follows: **2018:** www.irs.gov/retirement-plans/plan-participant-employee/amount-of-roth-ira-contributions-that-you-can-make-for-2018 **2019:** https://www.irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2019
Tax-Deductible Contributions	Deductibility may be limited if you (or your spouse, if you are married) are covered by a retirement plan at work and your income exceeds certain levels. Please refer to the IRS website for applicable limits: www.irs.gov/retirement-plans/ira-deduction-limits	There are no tax deductions for contributions.
Taxation of Distributions	Deductible contributions and investment gains are taxed as ordinary income upon distribution.	If you satisfy the requirements, qualified distributions[2] are exempt from federal taxes.
Taxation of Early Distributions	Early distributions (before age 59½) are generally subject to ordinary income and an additional 10% early distribution tax. Exceptions[3] from the early distribution tax are allowed in certain circumstances.	Regular contributions (but not the growth in the account) can be withdrawn at any time, for any reason, without ordinary income or an additional 10% early distribution tax. Otherwise, early distributions (before age 59 ½) that are not qualified[2] are generally subject to ordinary income and an additional 10% early distribution tax. Exceptions[3] from the early distribution tax are allowed in certain circumstances. Roth IRA distribution rules are multifaceted and complex (particularly when including conversion contributions or rollover contributions from qualified retirement plans); consult your tax advisor.
Mandatory Distribution Age	Distributions must begin by April 1 of the calendar year following the year the account owner turns 70½.	There is no mandatory age to begin taking distributions, although Roth IRA beneficiaries must take required minimum distributions.

Source: Internal Revenue Service, January 2019

[1]Generally, compensation is what you earn from working. IRS Publication 590-A provides a summary of what compensation does and does not include.

[2]Qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements: **1)** It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and **2)** The payment or distribution is: **a)** Made on or after the date you reach age 59½, **b)** Made because you are disabled (as described in IRS Publication 590-B), **c)** Made to a beneficiary or to your estate after your death, or **d)** One that meets the requirements listed for first home purchase (as described in IRS Publication 590-B) up to a $10,000 lifetime limit.

[3]Please refer to the IRS website for rules pertaining to exceptions to the 10% early distribution tax: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions

4. Contribute and convert.
Roth IRAs offer some advantages over Traditional IRAs, including potentially tax-free distributions, but you may not be eligible to contribute to a Roth IRA if your income exceeds a certain level.

- If you do not have an existing IRA
  If your income exceeds the IRS limits for a Roth IRA, consider making the maximum contribution to a Traditional IRA and then quickly converting it to a Roth IRA. This strategy works best if you don't have other pretax IRAs, because the taxes due upon conversion will be based only on any investment gains in the newly established Traditional IRA from the time you make the contribution until it is converted to a Roth IRA.
- If you have existing IRAs
  If you have other pretax IRAs, this strategy can still be advantageous, but be aware that the rules governing Roth conversions are complex. In particular, earnings and previously untaxed contributions in all of your pretax IRAs are taken into account when determining the taxes owed on conversion. Consult your tax advisor for Roth conversion rules.

5. Kick-start savings for the next generation.
It's never too early to think about retirement savings. You can give your children or grandchildren a head start on savings that will grow over time by helping them fund an IRA. This is a smart way to help young adults who may feel that they can't afford to contribute yet on their own. Even teenagers or younger children are eligible, as long as they earned income in 2018—for example, from a part-time after-school job.

The maximum amount that can go into the IRA for a child or grandchild is limited to the earned income reflected on their W-2 form. And keep in mind that any gift you give to children or grandchildren to help them fund their IRAs is subject to the gift tax rules. Your tax advisor can provide more information on gifting strategies and their ramifications.

Five questions to consider

1. Can I deduct my IRA contribution if I have a retirement plan at work?
2. Does it make sense to consolidate my IRAs?
3. Should I change my beneficiary designations?
4. How much income will my retirement accounts provide in retirement?
5. Am I saving enough?

Next Steps

You may want to consider consolidating your retirement accounts. If you've changed jobs over the course of your career, you're very likely to have accumulated retirement funds in different accounts. Consolidating can help you keep track of your holdings and more carefully align your investment strategies with your retirement goals. Review your options and consider the benefits of consolidating your retirement accounts, including whether consolidating makes sense for your situation.

Savvy IRA strategies are just one way to help fund for the retirement you want. Whether your retirement is in the near future or years away, now is the time to review your plans. Whether you invest independently, or work with a J.P. Morgan Advisor, you should determine whether you're on track to meet your goals and look at your retirement plans holistically.