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MARCH 13, 2018

Invest in Your Future Through an IRA

By Christina Kilroy

Nearly 44 million US households invest and save for their future through individual retirement accounts (IRAs). If your household isn't one, now is a great opportunity to join them. And if you are already saving in an IRA, there are some advantages that you may not be aware of—and that are worth knowing about as Tax Day approaches.

What Savers Need to Know Now

During recent negotiations about changes to the tax code, many Americans were concerned about preserving the flexibility and tax treatment of IRAs. Fortunately, the tax law that passed in December 2017 preserves intact the incentives that help Americans save, invest, and plan for retirement—including rules for IRAs.

This includes a rule allowing IRA savers to make contributions for the previous tax year up until Tax Day, which this year is April 17. People younger than 50 can contribute up to $5,500, while those 50 or older can contribute an additional $1,000 per year. This means that you have until April 17 of this year to contribute to an IRA for 2017, but that date is final—you can't extend the IRA deadline, even if you get an extension to file your tax return. Because contributions to traditional IRAs can be tax-deductible (subject to income limits), this rule gives savers the opportunity to reduce their taxable income even after the end of the tax year.

The deductibility of traditional IRA contributions phases out with income, so you'll have to check your own situation or talk to your financial professional to see how it affects you. But regardless of income, if you don't have a workplace retirement plan, such as a 401(k), your traditional IRA contribution is fully deductible, up to the contribution limit.

IRAs Offer Both Short- and Long-Term Benefits

The tax deduction can be an alluring reason to start saving in a traditional IRA—but the real benefits of IRA saving come with the long-term advantages they offer.

Tax deferral. Even if you can't take advantage of a tax deduction because of income limits, traditional IRAs still offer the benefit of tax deferral: the investment earnings on your IRA are not taxed until you withdraw the funds in retirement—allowing your money to grow tax-free.

Portability. As you change jobs and move through your career, you can roll assets from a 401(k) or similar workplace plan into a traditional IRA. This makes retirement assets portable and makes it simpler to manage the savings accrued from different employers. Rolling assets into an IRA also prevents the taxes and penalties—not to mention opportunity costs!—that you can incur if you cash out a 401(k) before retirement.

Automatic saving. You can automate IRA contributions, which allows you to save small amounts at set intervals—like on paydays. This makes saving a regular—and relatively pain-free—habit, and enables you to take advantage of the benefits of dollar-cost averaging.

Flexibility. The flexible structure of an IRA gives you choices when it comes to your retirement savings—you decide how much you want to contribute, and when. And you're not limited to a traditional IRA. Workers who meet certain qualifications may open a Roth IRA. You'll have to pay tax on the contributions you make to a Roth IRA, but you won't pay taxes on qualified withdrawals in retirement.

Part of America's Strong Retirement System

Flexibility is an advantage of IRAs—and it's also one of the strengths of America's retirement system, which offers a number of ways to save and invest for retirement over the course of your career.

Assets earmarked for retirement—including IRAs, employer-provided defined benefit and defined contribution plans, personal savings, and Social Security—now total $27.2 trillion. Of that, Americans hold $8.6 trillion in IRA assets.

Go ahead and join them.

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