

ICI VIEWPOINTS

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IRA: Will You Be Mine?

By Sarah Holden

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Generally, people don't turn to economists (representing the [dismal science](#) as we do) for guidance on matters of love. Still, I have a proposal for a Valentine's Day gift, whether for yourself or a loved one: contribute to an [individual retirement account \(IRA\)](#).

These popular vehicles for retirement savings are used by [more than 42 million US households](#) to grow and maintain their savings, and our research shows that Americans have more than [\\$9.5 trillion](#) in assets invested in these accounts. [Traditional IRAs](#) are the most common type of IRA, although [Roth IRAs](#) have been increasing in popularity.

Looking for Love? It's Not Too Late

It's not too late to make a contribution to an IRA for the 2018 tax year. You're allowed to make contributions until Tax Day in mid-April and a tax-deductible contribution could reduce your 2018 tax bill.

For the 2018 tax year, individuals are limited to \$5,500 in total contributions to all of their traditional and Roth IRAs. Those 50 or older can contribute an additional \$1,000 (a "catch-up" contribution). Although IRAs have this contribution limit, they offer a choice: you can pay your taxes now or you can pay your taxes later. Contributions to traditional IRAs are tax-deferred (subject to certain limits)—that is, no income tax is paid until you withdraw money from the IRA. In contrast, contributions to Roth IRAs are taxable, but no taxes are paid when you make a withdrawal (subject to certain restrictions). Although it is not at all intuitive, it turns out that for many workers these two very different approaches provide the [same tax benefits](#).



How Do I Love Thee? Let Me...Contribute to an IRA for You

If you're married, you can even use your earnings to contribute to an IRA for your spouse. As the [IRS](#) explains:

Kristin, a full-time student with no taxable compensation, marries Carl during the year. Neither of them was age 50 by the end of 2018. For the year, Carl has taxable compensation of \$30,000. He plans to contribute (and deduct) \$5,500 to a traditional IRA. If he and Kristin file a joint return, each can contribute \$5,500 to a traditional IRA. This is because Kristin,

who has no compensation, can add Carl's compensation, reduced by the amount of his IRA contribution (\$30,000 – \$5,500 = \$24,500), to her own compensation (-0-) to figure her maximum contribution to a traditional IRA.

It's Easy to Open an IRA

You can open an IRA with the assistance of investment professionals, such as at full-service brokerage firms, banks or savings institutions, independent financial planning firms, or insurance companies. You can also go directly to a mutual fund company or through a discount brokerage firm.

The next step is to decide your investment style. If you're a do-it-yourself type of investor, the range of investments available to you run the gamut from exchange-traded funds (ETFs) and mutual funds—whether index or active, whether domestic or international, whether equity- or bond-focused—to individual stocks and bonds, to bank deposits.

If you'd rather leave the asset allocation and rebalancing to an investment professional, [target date funds](#) may be worth considering. A target date fund (also known as *lifecycle fund*) typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. The target date is the date at which the investor anticipates retiring.

Want to know more about the details of IRAs? Check out [ICI's IRA resources](#) or [FINRA's IRA Basics](#). Many mutual fund sponsors have great educational material as well.

Will You Still Be Mine?

So, as this Valentine's Day approaches, step back and consider treating yourself or your spouse to an IRA contribution. Saving for retirement is an important household financial goal and contributing to an IRA is a good step toward providing for those later years.

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