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 tax-deferred 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 right now to “max out” your IRA and avoid missing out on potential tax-deferred growth.

1. Contribute early in the year.
You can gain additional months of compounding by making your 2017 IRA contribution this year instead of waiting until April 15, 2018. By contributing as early as possible, you can take advantage of up to an entire year of compounded growth.

If you haven't made your 2016 contribution yet, consider making your 2016 and 2017 contributions at the same time. If you aren't able to make your maximum 2017 contribution all at once, now is a good time to establish a savings plan for the year ahead.

2. Contribute for a nonworking spouse.
You can 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 and file a joint tax return, you can contribute for both yourself and your spouse. IRS regulations allow you to contribute up to $5,500 to your IRA and another $5,500 to a spousal IRA, as long as the total contributions don't exceed your taxable compensation. 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.

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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 advantaged compounding.

And if you make your 2016 and 2017 contributions at the same time, that can add up to $22,000 in total contributions. Compounded over time, that dollar amount can generate meaningful savings.

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 $5,500 maximum contribution, for a total of $6,500. 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.

4. Contribute and convert.
Roth IRAs offer some advantages over Traditional IRAs, including 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 from the time you made the contribution to your newly established Traditional IRA until it is converted to a Roth IRA.
# Traditional vs. Roth IRAs: Key Differences and Similarities

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<thead>
<tr>
<th>Features</th>
<th>Traditional IRA</th>
<th>Roth IRA</th>
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<tbody>
<tr>
<td><strong>Tax-Deferred Investment Growth</strong></td>
<td>Yes – Investment growth is tax-deferred.</td>
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<tr>
<td><strong>Maximum Annual Contribution</strong></td>
<td>100% of earned income$^1$ up to $5,500 ($6,500 if age 50 or older).</td>
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<td><strong>Age Limit to Contribute</strong></td>
<td>Yes – Must be under age 70½ in the year of the contribution.</td>
<td>No – There is no age limit.</td>
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<td><strong>Tax-Deductible Contributions</strong></td>
<td>Deductibility may be limited if you (or your spouse, if you are married) are covered by a retirement plan at work and your income exceeds certain levels. Please refer to the IRS website for applicable limits: <a href="http://www.irs.gov/retirement-plans/ira-deduction-limits">www.irs.gov/retirement-plans/ira-deduction-limits</a></td>
<td>No – There are no tax deductions for contributions.</td>
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<td><strong>Taxability of Distributions</strong></td>
<td>Yes – Deductible contributions and investment gains are taxed as ordinary income upon withdrawal.</td>
<td>No – If you satisfy the requirements, qualified distributions$^2$ are exempt from federal taxes.</td>
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<td><strong>Taxation of Early Withdrawals</strong></td>
<td>Yes – Early withdrawals (before age 59½) are generally subject to ordinary income and IRS 10% penalty tax. Exceptions for the early withdrawal penalty tax are allowed in certain circumstances.</td>
<td>Yes - Early withdrawals (before age 59½) of the growth portion of your Roth IRA (i.e., investment gains), are subject to ordinary income and IRS 10% penalty tax. Exceptions for the early withdrawal penalty tax are allowed in certain circumstances. However, you may withdraw 100% of the amount you contributed (but not the growth in the account) at any time, for any reason, without ordinary income tax or IRS penalty.</td>
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<td><strong>Mandatory Withdrawal Age</strong></td>
<td>Yes – Distributions must begin by April 1 of the calendar year following the year the account owner turns 70½.</td>
<td>No – There is no mandatory age to begin taking withdrawals, although Roth IRA beneficiaries must take required minimum distributions.</td>
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Source: Internal Revenue Service, January 2016

$^1$The IRS defines earned income as taxable compensation (wages, tips, bonuses and commissions) or self-employed income. Taxable alimony payments are considered compensation; unemployment insurance and Social Security benefits are not.

$^2$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 defined 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 defined in IRS Publication 590-B) up to a $10,000 lifetime limit.
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 2016—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.

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 savings 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 savings accounts, including whether consolidating makes sense for your situation.

Savvy IRA strategies are just one way to save 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 an Advisor, you should determine whether you’re on track to meet your goals and look at your retirement plans holistically.