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“Right now, we’re in a phase where the maximum allowable amount to contribute to an IRA goes up almost every year. So now is the time to take advantage of that tax benefit and save more for your retirement. The limit now is \$3,000, and by 2008, it will be \$5,000.”

— Brenda Schafer, MSA, CPA, CFP™, EA, Senior Tax Research Coordinator

Take Advantage of Higher IRA Contribution Limits

Statistics show that very few taxpayers who are eligible to contribute to an Individual Retirement Account (IRA) actually do so. Those taxpayers who do contribute to an IRA often don’t contribute the maximum amount allowed. Still, the dollars they contribute in 2003 — and they have until April 15, 2004, to count a contribution toward the 2003 tax year — will register in the billions.

If you’re not yet into an IRA or aren’t putting in the annual maximum allowed, perhaps a little lesson on the time value of money will help change that. It will also help you to see why you should take advantage of the new, higher IRA contribution limits. Even if you don’t contribute the maximum, contribute to an IRA, because you’re never too young or too old to start saving for retirement.

The Time Value of Money. The chart below shows the balance of an IRA account based on the amount of annual savings and the years to retirement. This illustration assumes a 5percent growth rate and contributions made at the beginning of the period. As you can see, if you start early enough, even a small annual savings can really add up. Time is money.

Annual Contribution

Year	\$500	\$1,000	\$1,500	\$2,000
1	\$525	\$1,050	\$1,575	\$2,100
2	\$1,076	\$2,153	\$3,229	\$4,305
3	\$1,655	\$3,310	\$4,965	\$6,620
4	\$2,263	\$4,526	\$6,788	\$9,051
5	\$2,901	\$5,802	\$8,703	\$11,604
6	\$3,571	\$7,142	\$10,713	\$14,284
7	\$4,275	\$8,549	\$12,824	\$17,098
8	\$5,013	\$10,027	\$15,040	\$20,053
9	\$5,789	\$11,578	\$17,367	\$23,156
10	\$6,603	\$13,207	\$19,810	\$26,414
15	\$11,329	\$22,657	\$33,986	\$45,315
20	\$17,360	\$34,719	\$52,079	\$69,439
25	\$25,057	\$50,113	\$75,170	\$100,227
30	\$34,880	\$69,761	\$104,641	\$139,522
35	\$47,418	\$94,836	\$142,254	\$189,673
40	\$63,420	\$126,840	\$190,260	\$253,680
45	\$83,843	\$167,685	\$251,528	\$335,370
50	\$109,908	\$219,815	\$329,723	\$439,631

¹ David Joulfaian and David Richardson, Who Takes Advantage of Tax-Deferred Savings Programs? Evidence from Federal Income Tax Data, National Tax Journal, Vol. LIV, No. 3, May 2001.

In 2002, the IRA contribution limit went up from \$2,000 to \$3,000. And the limit is going to go even higher for 2005 – 2008. So what happens to your savings if you increase your contributions to the maximum allowed. Let's take a look at the difference that increased contributions in tax years 2003 through 2010 would make compared to the old maximum \$2,000 contributions over 20 years.

IRA contribution limits

	Regular	Catch-up
Pre – 2002	\$2,000	n/a
2002 - 2004	\$3,000	\$ 500
2005	\$4,000	\$ 500
2006 - 2007	\$4,000	\$1,000
2008	\$5,000	\$1,000
2009 - 2010	indexed	\$1,000
2011 – forward	\$2,000	n/a

	\$2,000 each year	Max under EGTRRA under age 50	Max under EGTRRA age 50
2003	\$ 2,100	\$ 3,150	\$ 3,675
2004	\$ 4,305	\$ 6,458	\$ 7,534
2005	\$ 6,620	\$ 10,980	\$ 12,635
2006	\$ 9,051	\$ 15,729	\$ 18,517
2007	\$ 11,604	\$ 20,716	\$ 24,693
2008	\$ 14,284	\$ 27,002	\$ 32,228
2009	\$ 17,098	\$ 33,602	\$ 40,139
2010	\$ 20,053	\$ 40,532	\$ 48,446
2011	\$ 23,156	\$ 44,658	\$ 52,968
2015	\$ 37,197	\$ 63,334	\$ 73,435
2020	\$ 59,078	\$ 92,436	\$ 105,327
2025	\$ 87,004	\$ 129,578	\$ 146,031

As you can see, contributing to an IRA can be a great way to save for retirement. Even a small contribution can add up. Taking advantage of the higher contribution limits will help you accumulate a bigger nest egg and can make a big difference in what you'll have available when you retire.

Planning Tip: Saving for retirement doesn't have to be painful. Most IRAs allow you to set up monthly withdrawals from your checking or savings account. Beginning in 2004, you may be able to contribute to an IRA set up through your employer and make your contributions through payroll deductions. And, you can open an IRA with as little as \$300 with an Express IRA from H&R Block, for example, so there is really no excuse not to save for your retirement. ...It's closer than you think.