JANUS CAPITAL Group

Five Considerations Before Making Your IRA Contribution

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1. Take full advantage. If you are not making an IRA contribution each year, you are losing out on a valuable savings opportunity.Many investors incorrectly believe that coverage by a retirement plan at work or high income prohibits them from making a traditional IRA contribution. While many of these individuals are likely not eligible for a tax deduction (more on that later) they can at a minimum make a nondeductible contribution. The benefit is that the earnings will accumulate tax-deferred, resulting in a larger nest egg than a comparable savings account that is subject to income taxes annually. The fact is all individuals with earned income and who are under age 70 1⁄2 are eligible to make a traditional IRA contribution. For couples, each spouse can contribute up to $5,500 for 2014 ($6,500 if age 50 or older) as long one spouse has earned income of $11,000 ($13,000 if both spouses are age 50 or older) for the year.

2. Make your 2015 contribution now. The deadline to make your prior year contribution is April 15th even if you qualify for a tax extension. While many investors have grown accustom to waiting until the proverbial last minute to fund their IRA, current year contributions can be made as early January 1st. Making your 2015 contribution now will allow your money to earn an additional year of interest (in the current low yield environment, every bit helps), or for stock investors, participate in any future market gains that may be in store for the balance of the year. Of course, if the stock market declines, your investment may also drop in value. As an alternative, stock investors might explore funding their IRA over the course of year, through an automatic funds transfer (AFT) program. Transferring cash from your bank accounts to your IRA on a monthly basis will allow you to take advantage of rising markets but also allows you to buy more shares or units of your investment on market dips. Known as dollar-cost-averaging, making your investment over time, rather than all at once, helps minimize the impact of bad timing and allows market volatility to work in your favor.

3. Choose carefully between a Roth and Traditional IRA. Investors who are not covered by a retirement plan at work, or who are covered but whose modified adjusted gross income (MAGI) is less than $60,000 if single or $96,000 if married, are eligible to deduct their 2014 IRA contribution. Further, married individuals who are not covered by a plan at work but whose spouse is covered, may deduct their 2014 IRA contribution if the couple’s MAGI is less than $181,000. There is a possibility that some of these same investors may also be eligible for a Roth IRA. For 2014, workers with MAGI less than $181,000 (married) and $114,000 (single) may contribute to a Roth. The question these investors must ask themselves is which IRA provides the most benefit. There is no upfront deduction with a Roth but qualified distributions are both federal and state income tax-free. Traditional IRA owners receive a deduction upfront, but pay taxes later when distributions begin. One consideration is your tax bracket. If you anticipate being in a lower tax bracket in retirement, then the traditional IRA may be a better option. Alternatively, if you anticipate being in a higher tax bracket, then the Roth IRA is for you. If you are deciding between a Roth IRA or a nondeductible traditional IRA, then the Roth is always the better option since the earnings accumulate tax-free rather than tax- deferred.

4. Supplement your contribution with an investment-only variable annuity. If your IRA is your primary savings vehicle for retirement, chances are you will need to save more than the $5,500 annual limit imposed on your account. One way to increase your annual savings, and a way to take advantage of tax-deferred growth, is through an annuity. There are many different types of annuities including fixed, which offer a guaranteed return, variable, which are tied to stock and bond investments, as well as immediate, those that begin payouts right away, and deferred, those that allow you to determine the timing of distributions. What’s more, over the last decade annuities have become more complex, offering investors the opportunity to lock-in a minimum death benefit for their beneficiaries or a guaranteed lifetime income stream regardless of performance for an additional fee. While these features may be appropriate for some investors, for today's saver looking to supplement IRAs and even employer retirement plans, we suggest considering an investment-only variable annuity. These annuities are essentially a mutual fund investment in a tax-deferred structure. There are no guarantees with these products but the fees are also much lower than the newer generation of complex contracts. Like IRAs, you pay income taxes only when distributions begin in retirement. There is also a premature distribution penalty if distributions are made prior to age 59 1⁄2. If you are already a mutual fund investor, take a moment to review your investments' 2014 1099s tax forms. Had these same investments been made in an investment-only variable annuity, these taxes would have been deferred.

5. Invest globally. Most IRAs today are self-directed, meaning you can invest your contribution in a wide range of stocks, bonds and other vehicles. One of the tenets of sound investing is to diversify across a number of stocks and bonds but that may prove difficult with $5,500 to work with each year. Mutual funds, and in particular global mutual funds which invest in the United States, developed international countries and emerging markets, can offer you a simple, one-stop, instant diversification strategy. There are many different types of global funds including those that invest in stocks, bonds, specific sectors such as health care or technology and broad-based asset allocation strategies that can invest in practically anything. Working with your advisor, you can choose those strategies that meet your need for return and appetite for risk. If you already have a retirement plan at work, global investing in your IRA offers yet another advantage. Most 401(k) plans use mutual funds that are style-specific. In other words, there are U.S. only and international- only managers. These investments must stick with their mandate, regardless of current market conditions or the managers' personal beliefs about future opportunities. Alternatively, global managers can search the entire world for best- ideas, and offer a complementary investment style to those managers likely found in your employer's 401(k) plan.

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International investing is designed for long-term investors who can accept the special risks associated with value investing and having significant exposure to foreign markets (which include risks such as currency fluctuation and political uncertainty).

A program of regular investing does not assure a profit or protect against depreciation in a declining market. Since a consistent investing program involves continuous investment in securities regardless of fluctuating prices, you should consider your financial ability to continue purchases through periods of various price levels.

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