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Fund your Roth IRA today

VIEWPOINT

By **ERIC B. PARNELL**

Around this time of year, I often receive questions from clients asking when is the best time to fund their Roth Individual Retirement Accounts (IRAs). For those who have the financial flexibility to do it, history has shown that the best time to fully fund your Roth IRA is right around this time of year. The only twist – you should be making your contributions for the year that just started, not the tax year that just ended. This subtle timing difference can lead to thousands of extra dollars in your pocket at retirement.

Before going further, however, it's worthwhile to explain why people might want to invest in a Roth IRA in the first place. The Roth IRA is a great way to save for retirement because the earnings on your account grow tax-free. Why is this important? Suppose you invest \$4,000 in a Roth IRA today and get an 8% rate of return each year. If you decide to withdraw your money after 30 years, your Roth IRA account would be worth over \$40,000. If you put this same \$4,000 amount into a regular savings account paying 8% each year, it would be worth as little as \$21,000 or less depending on your tax bracket. In short, the decision to choose a Roth IRA could lead to as much as twice the amount of money or more ending up in your wallet after 30 years.

Those that have not exceeded the income limits have the opportunity to contribute to a Roth IRA each tax year. This can be as much as \$4,000 for individuals and \$8,000 for married couples (anyone over 50 can tack on another \$1,000 each year). You can make your Roth IRA contribution as early as January 1 of the current year to as late as the April tax-filing deadline in the following year. Given this flexibility around timing, it is reasonable to wonder when is the best time to make this

contribution. The answer – the earlier you make your contributions each tax year, the better.

Investors have historically enjoyed a distinct advantage by funding their Roth IRA as soon as possible in January each year instead of waiting until right before the tax deadline in April of the following year. For example, taking a look at 10-year stock market returns on the S&P 500 each year from 1979 to 2005, a couple who made a full \$8,000 contribution each January instead of waiting until the following April would have ended up with over \$23,000 more in their Roth IRAs on average. Taking this one step further for the long-term investor, examining 30-year returns each year from 1979 to 2005, a couple who invests each January instead of the following April would have had over \$81,000 more in their Roth IRAs on average. I don't know about you, but I can think of a lot of things I might like to do with an extra \$81,000 in retirement.

So what can you do today to take advantage of this opportunity? If you haven't funded your Roth IRA for 2005 yet and are below the income limit (adjusted gross income of \$95,000 for singles, \$150,000 for married couples), make your full contribution as soon as possible. At the same time, follow up by fully funding your Roth IRA for 2006. Finally, begin a savings program to make sure that you are ready to fully fund your Roth IRA for 2007 once next January comes around. This strategy will put you right on track to best capture this opportunity to boost your retirement savings.

Of course, not everyone has the extra cash to put a strategy like this in place right away. But even making a partial contribution or depositing a little bit each month into your Roth IRA can still go a long way to helping you reach a prosperous retirement.

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