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It's Time to Make Your IRA Contributions for Tax Year 2012

As April 15th approaches, it's time to fully fund your IRA for tax year 2012. Whether you are an early starter, a late bloomer or a disciplined long-time investor, an IRA should be an important component of your retirement planning. For tax year 2012, there are several important reasons to take advantage of the benefits of an IRA.

Take Advantage of the New Increased Annual Income Limits. The maximum Traditional and Roth IRA contribution limit for 2012 remains unchanged at $5,000 ($6,000 if you were age 50 or older by the end of 2012). If you have both a Traditional and a Roth IRA, please keep in mind that this annual contribution limit is the total combined amount that may be split between the two—though it can be in any proportion you like, as long as you do not exceed it. For example, if you are 52 years old, married and earned $91,000 in 2012, you could contribute $2,000 to a Traditional IRA and $4,000 to a Roth IRA in the same year.

What did change are the income eligibility limitations to deduct IRA contributions. Those parameters increased, making more taxpayers able to participate and take full or partial IRA contribution deductions. Those filing as single or head of household who participate in a retirement plan at work can deduct the maximum Traditional IRA contribution if your modified adjusted gross income is $58,000 or less and a partial contribution if your income is up to $68,000. That's up from $56,000 and $66,000, respectively, in 2011.

For married couples filing jointly, in which the spouse who makes the Traditional IRA contribution is covered by a workplace retirement plan, the income phase-out range is between $92,000 and $112,000 for 2012, up from between $90,000 and $110,000 in 2011. If you contribute to a Traditional IRA and are not covered by a workplace retirement plan but are married to someone who is covered, the deduction is phased out if your combined income is between $173,000 and $183,000 in 2012, up from a $169,000 to $179,000 phase-out range in 2011.

Importantly, individuals and couples who do not participate in a workplace retirement savings plan at all can deduct your full Traditional IRA contribution regardless of income.

The income limits to qualify for a Roth IRA contribution increased as well. Single filers and heads of household can make the maximum contribution to a Roth IRA if your income is less than $110,000 in 2012 or a partial contribution as long as your income does not exceed $125,000. That's an increase from the $107,000 to $122,000 phase-out range in effect for 2011. Married couples filing jointly can make the maximum contribution to a Roth IRA for 2012 as long as your modified adjusted gross income is less than $173,000 and a partial contribution if your joint income does not exceed $183,000, up from the $169,000 to $179,000 phase-out range for married couples in 2011.

For those of you who are self-employed, the amount of dollars you are able to contribute to your SEP-IRA increased, but the percentage of your net earnings you can invest in your SEP-IRA stayed the same. The annual contribution limit for SEP-IRAs for 2012 increased from $49,000 to $50,000, as long as that amount does not exceed the 25% maximum of your net earnings. For a 401(k), a 403(b) or a 457 plan, the contribution limit also increased slightly for 2012—from $16,500 to $17,000; if you are age 50 or more, you can add an extra $5,500 to that maximum—for a total of $22,500. SIMPLE IRA contribution limits—at $11,500, or $14,000 if you are 50 or older—remained unchanged from 2011 to 2012.

Take Advantage of the Full Potential of Tax-Deferred or Tax-Free Growth. Anyone under age 70½ who receives taxable compensation or whose spouse earns taxable income is eligible to make contributions to a Traditional IRA. For more investors than ever now, contributions may be tax-deductible. For all, assets grow tax-deferred, and you would pay no taxes until you may make withdrawals during your retirement years when your tax rate may be lower. You are eligible to contribute to a Roth IRA no matter what your age as long as you have earned income and your modified adjusted gross income does not exceed certain levels. Contributions to a Roth IRA are not tax-deductible, but withdrawals are tax-free under qualified circumstances. Whether you invest in a Traditional or

Roth IRA, tax-deferred investing means your money grows faster than it would in a comparable taxable investment.

The benefits of tax-advantaged saving can be counted in dollars and cents. Assume you save $5,000 a year for 25 years, earn a 5% annualized return on your investment, and are in a combined federal and state tax bracket of 30%. In a tax-deferred IRA, you would have accumulated $293,186 at the end of the period. And you would have enjoyed a total tax savings of $43,800! If tax rates should increase, the advantages of tax-deferred growth become even more dramatic.*

Take Advantage of Spousal IRAs. If you are married and your spouse does not work, you may want to consider a spousal IRA. Under current law, a working spouse may contribute up to $5,000 (or $6,000 if over age 50) to a spousal IRA for tax year 2012, in the name of the non-working spouse in addition to his or her own IRA, assuming you file jointly, the working spouse has enough earned income to cover the contribution, and new increased annual income limits discussed earlier are not exceeded. As a result, a couple under age 50 may be able to contribute up to $10,000 for 2012. A couple with each spouse over age 50 may be able to contribute up to $12,000!

Take Advantage of Time. No matter how old you are, now is the time to invest in your IRA. Here's why. If you are 35 and have $100,000 in savings, saving $1,000 each year at a 5% annual rate of return until age 65 could potentially provide you with a nest egg of $523,565 at age 65. But if you are 45 years old with the same $100,000 in savings, saving $1,000 each year at a 5% annual rate of return until age 65 may provide a nest egg of just $313,316. That's a difference of more than $210,000!* Fortunately, higher IRA income eligibility limits for investors of all ages—and the tax-deferred advantages IRAs offer—allow you to do some catching up.

There's another way you can take advantage of time. You can make your 2013 IRA contribution now and, by not waiting until the weeks before the deadline of April 15, 2014, gain an extra year of tax-deferred growth on your IRA investment. You can either make a lump-sum contribution, or by starting now, you have the option of spreading your contributions over a number of months. This latter strategy also offers you the benefits of dollar cost averaging.**

Can Retirement Goals be Reached? There is no question that today's investment environment is a volatile one, full of dramatic ups and downs. None of us can control how the financial markets perform. However, what we *can* control—especially amidst uncertain market conditions—is our own careful and disciplined retirement planning. By "maxing out" your IRA investments each year, by investing regularly, by paying attention to the investment basics of patience, perspective and portfolio diversification, you may increase the potential for reaching your long-term retirement goals.

Start the Year Smart

The past few years have been a challenge for even the most seasoned investors. While 2012 was a year of gains for both equity and fixed income investors, it was also a year of great volatility. By structuring your investment portfolio strategically—making sure it is diversified, has a balanced asset allocation and makes efficient use of both taxable and tax-advantaged accounts, including IRAs, you and your portfolio may be better positioned for potential growth amidst whatever changes lie ahead.

The Value Line Funds have built their legacy by helping secure investors' financial futures for more than six decades now. We look forward to serving your investment needs through our family of mutual funds for many years ahead.

** These hypothetical examples are for illustration purposes only and are not indicative of past or future performance of any particular investment. Actual returns will vary and principal value will fluctuate.*

*** Of course, regular investing does not assure a profit or protect against a loss in a declining market. Since this strategy involves regular investments, regardless of fluctuating prices, you should consider your financial ability to invest through periods of higher price levels.*