Building your nest egg: The Power of an IRA Contribution

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Every year American's have a great opportunity . . . the opportunity to contribute pre-tax to an IRA or 401k. Unfortunately, few people contribute to them every year and fewer people, 80% (according to research*), don't even have an IRA set up! Of those that do have an IRA set up, only 12% contribute annually to it.

Now I've been in the financial markets for quite a long time and my experience has taught me that there are two primary reasons why people either don't contribute or don't have an IRA set up. They are . . .

- **Lack of resources.** Some people unfortunately just do not have the

money to contribute. They are living paycheck to paycheck for one reason or another. Perhaps life is hard or perhaps they are living beyond their means. Whichever it is they just simply don't have the money. (For those that are living beyond your means . . . stop it!)
- **Lack of education.** The other group of people may have the resources they just simply don't understand the importance of setting up and contributing regularly to an IRA.

It’s the second group that I want to talk to right now, the group that perhaps just doesn’t get the benefit. My goal in showing you just one example is to **provide clarity on why an IRA can be so beneficial.** (For those of you in the first group that just doesn’t have the resources, please keep reading, someday you will have those resources and you’ll know what to do.)

To explain why these contributions are so beneficial let’s use a basic scenario . . . there are two investors, Investor A and Investor B.

Investor A – Opens up an IRA and contributes $5,500 to it. It’s a one-time contribution. The Investor works very hard and earns $100,000 per year.

Investor B – Does not open an IRA but does open a regular account and funds it with $5,500. Investor B never contributes to the account again. This investor also works very hard and makes $100,000 per year.

Each investor buys the same stock and sells the same stocks for three different 10 year periods. **The only difference between them is that Investor A has an IRA and Investor B does not.**

So here’s the amazing thing . . . after 30 years, four transactions (including the original contribution) and the consequences that come with those transactions (taxes), **Investor A has $7,927 more than Investor B!** The chart is below and is pretty amazing to look at and illustrates that the power of compounding truly is the “eighth wonder of the world.”Here’s the details for you that are the analyzer types. The assumptions are based on current tax rates and do not include state taxes which would reduce the total even more.[b]Date,[b]Transaction,[b]Investor%20A%20-%20IRA,[b]Investor%20B%20-%20Non-IRA|Original,Original%20Investment,%245%2C500%20,%245%2C500%20|,TAXES,No%20taxes,28%25%20tax%20bracket%20|,[b]Total%20after%20Taxes,[b]%245%2C500,[b]%243%2C960%20(%245%2C500%20x%20.28)|,Invest%20in%20stock%20A,%245%2C500,%243%2C960|10%20Years%20Later,Stock%20A%20doubles%20and%20they%20decide%20to%20sell%20it,,|,Portfolio%20Total,%2411%2C000,%247%2C920|,TAXES,No%20taxes,15%25%20capital%20gains|,[b]Total%20after%20Taxes%20,[b]%2411%2C000,[b]%247%2C326|,Invest%20in%20stock%20B,%2411%2C000,%247%2C326|10%20Years%20Later,Stock%20B%20doubles%20and%20they%20decide%20to%20sell,,|,Portfolio%20Total,%2422%2C000,%2414%2C652|,TAXES,No%20taxes,15%25%20capital%20gains|,[b]Total%20after%20Taxes,[b]%2422%2C000,[b]%2413%2C553.10|,Invest%20in%20stock%20C,%2422%2C000,%2413%2C553.10|10%20Years%20Later,Stock%20C%20doubles%20and%20they%20decide%20to%20sell%20and%20cash%20out.%20They%20are%20age%2065%2C%20retired%20and%20not%20working.%20The%20tax%20bracket%20is%20now%20lower%20at%2025%25.,,|,Portfolio%20Total,%2444%2C000,%2427%2C106.20|,TAXES,25%25,15%25%20capital%20gains|,[b]Total%20after%20Taxes,[b]%2433%2C000,[b]%2425%2C073.15If you have any questions on making contributions or setting up an IRA please let us know. We are more than happy to help you in any way that you need.

Contact IGGA today to open an RIA or to make a contribution.
Please note that the returns in this example are used for educational purposes only and are not indicative of what an investor could potentially return.

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