50 or Older? Four Ways to Catch Up Savings

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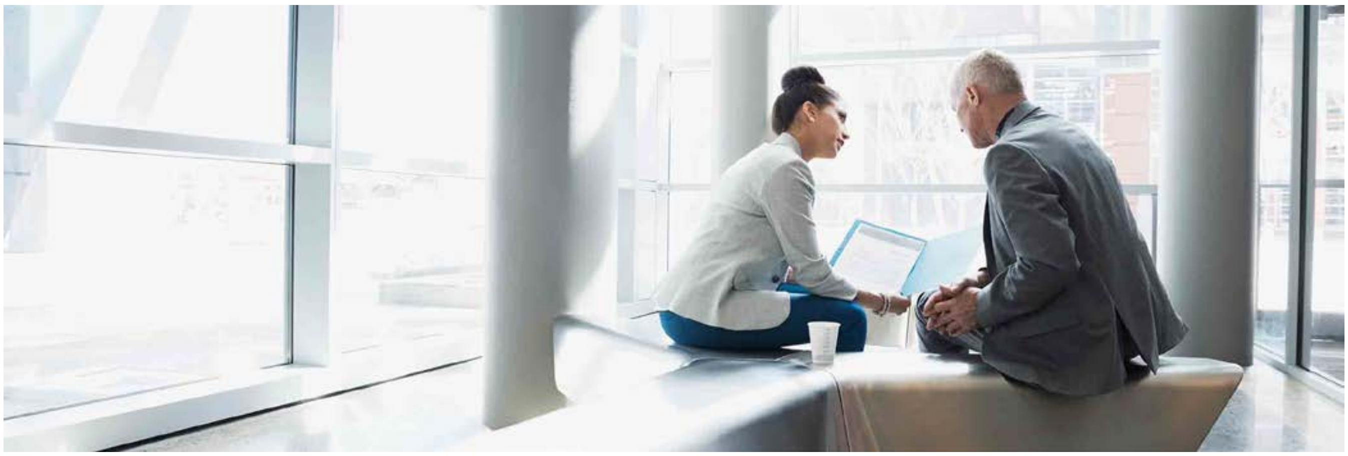
You could be saving $1,000 to $6,000 more in tax-advantaged accounts, which can really add up.



The notion that turning age 50 means starting to slow down is likely a young person's opinion. People who have hit the big five-oh know better. The prospect of retiring is getting closer, and there's a lot of living ahead. And you certainly want to make sure you can enjoy it. It may be the first time you have freedom to do what you want, when you want. So it is important to help ensure that you don't have to worry about money when you're retired.

Fortunately, the federal government recognizes that people approaching retirement age often need to pick up the pace to ensure they have saved enough for retirement. The tax code provides "catch-up" savings opportunities so people aged 50 and older can increase their tax-advantaged contributions to IRAs, 401(k)s, and health savings accounts.

Taking advantage of catch-up contributions can deliver a significant boost to your retirement saving. For example, if you turn 50 this year and put an extra $1,000 into your IRA for the next 20 years, and it earns an average return of 7% a year, you could have almost $44,000 more in your account than someone who didn't take advantage of the catch-up.[1] And the impact can be even greater for a 401(k) or similar plan, where the catch-up contribution opportunity is larger.

2017 catch-up opportunities

• Traditional and Roth IRAs: $1,000 catch-up	401(k) or similar plan: $6,000 catch-up
• SIMPLE IRA: $3,000 catch-up	Health Savings Account (HSA): $1,000 catch-up

Ready to start catching up with your retirement savings? Here's how:

1. Know where you stand.

More than half of households are at risk of not covering essential expenses in retirement, and nearly a quarter of people age 51 to 69 are concerned about outliving their retirement savings. That's what a Fidelity study of Americans' retirement preparedness revealed.

The first step toward determining whether you're on track to meet your goal is to find out how your savings—and savings rate—stack up.

2. Contribute more with the catch-up provisions.

Once you reach age 50, the catch-up provisions in the tax code allow you to increase your tax-advantaged savings in several types of retirement accounts.

- For a traditional or Roth IRA, the annual catch-up amount is $1,000, which boosts your total contribution potential to $6,500 in 2016 and 2017.
- The catch-up opportunity if you participate in a 401(k), 403(b), or similar workplace retirement savings plan is even greater—up to $6,000 a year. That means you can contribute up to $24,000 a year to a 401(k) for 2017, if you're age 50 or older.
- Participants in a SIMPLE IRA, designed for self-employed individuals and small businesses, can take advantage of a $3,000 catch-up contribution when they are age 50 or older, bringing their total contribution potential to $15,500 for 2017.
- And there's yet another opportunity to make a catch-up contribution—a Health Savings Account, or HSA. Like in an IRA, the catch-up amount for an HSA is $1,000. However the age-eligibility threshold is age 55 and older during the tax year a contribution is made.[2] With the catch-up, the total HSA contribution potential for 2017 is $4,400 for individuals and $7,750 for families.

3. Remember the tax advantages.

Even if you're on track with your retirement savings, tax-advantaged accounts are attractive long-term investment vehicles and tax-efficient planning tools. With the exception of a Roth IRA, contributions to tax-advantaged accounts reduce your taxable income in the current year, as long as you are eligible.[3] Although you'll have to pay tax on those pretax contributions when you withdraw the money (but not for a Roth IRA, or an HSA if used to pay for qualified medical expenses), the tax-deferred treatment of the contributions and investment earnings mean that you'll have more money available to work for you and potentially grow faster than in a fully taxable account.

With a Roth IRA, the contributions are taxed in the year you make them, but withdrawals when you reach 59½, are tax free after a five-year aging period.[4] Compare the features of traditional and Roth IRAs.
If your employer offers a high-deductible health care plan (HDHP) with a health savings account (HSA), you may want to consider electing the HDHP and opening an HSA.

HSAs have a unique triple tax advantage[5] that can make them a powerful savings vehicle for qualified medical expenses in current and future years: Contributions, earnings, and withdrawals are tax free for federal tax purposes. To make the most of your HSA (if you have access to one and you can afford it), you may want to consider paying for current-year qualified medical expenses out of pocket, and letting your HSA contributions remain invested in your HSA. That way it has the potential to grow tax free and be used to pay for future qualified medical expenses, including those in retirement.

4. Invest with an eye toward the future.

While tax-advantaged retirement accounts may help keep you on track to reach your retirement savings goal, your investment mix (asset allocation) is an important factor, too. Consider whether investing a significant portion of your savings in a mix of U.S. and international stocks and stock mutual funds may help you reach your long-term savings goals, since stocks have historically outperformed bonds and cash over the long term. You may want to think about gradually reducing the percentage of investments that you allocate to stocks as you get older.

Whatever your projected retirement date, your goal should be to have a portfolio with exposure to various types of investments that can provide the opportunity for growth and the potential to outpace inflation, along with investments that offer some degree of downside protection. Of course, stocks come with more ups and downs than bonds or cash, so you need to be comfortable with those risks. You should always make sure that your investment mix reflects your time horizon, tolerance for risk, and financial situation.

Goal: Enjoy retirement

As you plan for the day you retire, taking full advantage of tax-advantaged savings accounts, including catch-up provisions, may help you arrive in a significantly stronger position to enjoy the retirement lifestyle you envision.

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- Investing involves risk, including risk of loss.
- **Past performance is no guarantee of future results**
- 1. This hypothetical example is for illustrative purposes only and is not intended to represent the performance of any security in a Fidelity IRA. The example assumes: annual tax-deferred compounding in an IRA; that annual contributions are made each January 2 for 20 years; an annual contribution limit of $5,500; additional "catch-up" annual limits of $1,000; a hypothetical 7% annual return; and the reinvestment of income dividends and capital gains

distributions. Investing in this manner does not ensure a profit or guarantee against loss. Final account balances are prior to any distributions, and taxes may be due upon distribution.

- 2. Other HSA contribution eligibility rules may apply. Notably, the tax rules do not allow individuals enrolled in non-high deductible coverage, such as Medicare, to make tax-advantaged contributions to an HSA. Medicare enrollment at age 65 for example, may make you ineligible to contribute to an HSA.
- 3. For a traditional IRA, full deductibility of a contribution for 2016 is available to active participants whose 2016 Modified Adjusted Gross Income (MAGI) is $98,000 or less (joint) and $61,000 or less (single); partial deductibility for MAGI up to $118,000 (joint) and $71,000 (single). In addition, full deductibility of a contribution is available for working or nonworking spouses who are not covered by an employer-sponsored plan whose MAGI is less than $184,000 for 2016; partial deductibility for MAGI up to $194,000. For 2017, full deductibility of a contribution is available to active participants whose 2017 MAGI is $99,000 or less (joint) and $62,000 or less (single); partial deductibility for MAGI up to $119,000 (joint) and $72,000 (single). In addition, full deductibility of a contribution is available for working or nonworking spouses who are not covered by an employer-sponsored plan whose MAGI is less than $186,000 for 2017; partial deductibility for MAGI up to $196,000.
- 4. A distribution from a Roth IRA is tax free and penalty free provided that the five-year aging requirement has been satisfied and one of the following conditions is met: age 59½, death, disability, or qualified first-time home purchase.
- 5. Tax advantages are with respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation. See a tax professional for more information on the state tax implications.