

USING AN IRA TO BUILD WEALTH



Executive Summary

A 65-year-old who contributed the maximum to an IRA every year since 1977 (age 20) in the S&P 500 would have the following balances on 6/30/2022:

Amount Contributed	\$ 166,500
6/30/2022 Balance	\$ 2,231,985
6/30/2022 Dividends	\$ 39,222

Maximum IRA Contribution

IRA contributions were first allowed in 1975. The maximum contribution has been as follows:

	<u>Maximum Contribution</u>	<u>In 2022 Dollars</u>
1975	\$ 1,500	\$ 8,094
1982	2,000	5,963
2002	3,000	4,763
2005	4,000	5,897
2008	5,000	6,660
2013	5,500	6,715
2019	6,000	6,702

Beginning in 2002, investors 50 years and older have been able to make a \$1,000 Catch-up Contribution.

Several Interesting IRA Facts:

1. IRAs held \$13.2 trillion in assets as of 3/3/2022. This is more than the \$7.3 trillion held in 401(k) plans.
2. Beginning in 1998, taxpayers could contribute to a Regular IRA (tax-deductible) or a Roth IRA (after-tax but earnings tax-free).
3. Since 2008, allowed contributions have been increased due to inflation, but they have only been adjusted in \$500 increments. Note how in 2022 dollars, the IRA contribution has stayed consistent since 2008 (right-hand column in table above). But the current \$6,000 contribution is less than the 1975 \$1,500 contribution adjusted for inflation.
4. Because of high inflation, the IRA limit will likely increase to \$6,500 in 2023.

Keith Note:

Another interesting fact—the IRA limit in 1982 was about 9.9% of what a typical household earned. In 2020, it was about 8.9%. **REMEMBER THAT OLD ADDAGE**, “Save 10% of your income?” It is still true TODAY!

Contribute the Maximum = Become Wealthy?

On the next page is a chart showing how much a 65-year-old in 2022 would have accumulated in their IRA after 45 years of investing.

1. Maximum contribution in each year on March 31st from 1977 (age 20).
2. Contributions made into the S&P 500 (expenses not considered).
3. Dividends reinvested at the end of each quarter.

At 6/30/22, the results were:

Amount Contributed	\$ 166,500
6/30/2022 Balance	\$ 2,231,985
6/30 2022 Dividends	\$ 39,222

Note the exponential growth:

6/30	Years Investing	Balance
1992	15	\$ 103,765
2002	25	335,776
2012	35	626,877
2022	45	2,231,985

Keith Note:

The BIG gains in compounding come in the later years...

START EARLY!

Ideas for You to Consider...

Note: IRA contributions can only be made if someone has earned income (wages or self-employment income).

- If you have extra money, consider making gifts to help your young child or grandchild fund a Roth IRA.
- Small contributions into a Roth IRA for a young person can grow to large sums with compounding.
- Many children/grandchildren earn money working summer jobs in high school. That is a great time to help them start a Roth IRA.

Investing Maximum IRA Contribution Using S&P 500

Year (ending 12/31)	Age	IRA Contribution	Cumulative Investment	Year End Value	Hypothetical Income Stream
1977	20	1,500	1,500	1,504	82
1978	21	1,500	3,000	3,283	184
1979	22	1,500	4,500	5,548	306
1980	23	1,500	6,000	9,419	439
1981	24	1,500	7,500	10,368	572
1982	25	2,000	9,500	15,218	740
1983	26	2,000	11,500	20,851	860
1984	27	2,000	13,500	24,324	1,134
1985	28	2,000	15,500	34,433	1,310
1986	29	2,000	17,500	42,923	1,460
1987	30	2,000	19,500	46,880	1,677
1988	31	2,000	21,500	56,820	2,079
1989	32	2,000	23,500	77,227	2,500
1990	33	2,000	25,500	76,820	2,903
1991	34	2,000	27,500	102,401	2,985
1992	35	2,000	29,500	112,399	3,127
1993	36	2,000	31,500	125,786	3,333
1994	37	2,000	33,500	129,600	3,770
1995	38	2,000	35,500	180,634	4,164
1996	39	2,000	37,500	224,332	4,591
1997	40	2,000	39,500	301,666	4,912
1998	41	2,000	41,500	389,959	5,076
1999	42	2,000	43,500	474,209	5,229
2000	43	2,000	45,500	432,792	5,219
2001	44	2,000	47,500	383,579	5,319
2002	45	3,000	50,500	301,344	5,836
2003	46	3,000	53,500	391,613	7,128
2004	47	3,000	56,500	437,366	7,694
2005	48	4,000	60,500	463,085	9,022
2006	49	4,000	64,500	540,510	10,473
2007	50	5,000	69,500	575,393	11,944
2008	51	6,000	75,500	367,007	11,621
2009	52	6,000	81,500	472,358	9,590
2010	53	6,000	87,500	549,936	10,547
2011	54	6,000	93,500	567,396	13,138
2012	55	6,000	99,500	664,016	16,631
2013	56	6,500	106,000	886,457	18,263
2014	57	6,500	112,500	1,014,637	20,639
2015	58	6,500	119,000	1,035,581	23,002
2016	59	6,500	125,500	1,165,906	25,038
2017	60	6,500	132,000	1,427,318	27,291
2018	61	6,500	138,500	1,371,538	31,054
2019	62	7,000	145,500	1,810,343	34,091
2020	63	7,000	152,500	2,154,423	33,589
2021	64	7,000	159,500	2,780,666	36,825