Is now a good time to contribute to an individual retirement account (IRA)?

During periods of market uncertainty, investors can benefit from taking a long-term view to save for retirement.

KEY INSIGHTS

- For people who don't have access to a 401(k) or 403(b) plan at work, or for those looking to supplement their workplace plans, IRAs are an invaluable tool.
- If markets decline, you're purchasing an investment at a lower market value, so you're able to buy more shares than when markets are higher.
- Even those nearing retirement can benefit from contributing to a retirement account should the market decline, as their investments will very likely have the potential to rebound, given a retirement that could last 30 years or more.

We all know that you want to start saving for retirement as soon as you can. Investors looking back often regret not having ramped up savings earlier. For people who don't have access to a 401(k) or 403(b) plan at work, or for those who are looking to supplement their workplace plans with other investments, IRAs are an invaluable tool. You can't finance your retirement, so taking advantage of the retirement saving vehicles available to you is important to securing your future.

A history of market recoveries

If you're concerned about stock prices decreasing, or heading into a recession, try not to let market uncertainty stop you from investing. Remember that when you're purchasing an investment at a lower market value, you're able to buy more shares than when markets are higher. And if the potential for volatility has you concerned about whether the markets will rebound by the time you need the money in retirement, you can find comfort in knowing that every bear market in history has eventually led to a recovery. In retrospect, market declines can look like blips on a radar. The key to market recovery is patience.

The Postwar Recessions and Recoveries chart that follows shows the S&P 500 Index lows reached during each of the 12 recessions since the end of World War II and the corresponding principal returns for the 6- and 12-month periods that followed, as well as the time it took for the market to return to its pre-recession peak.

The ability to wait out a downturn is a strength on which long-term investors can capitalize. Investors can benefit from

Postwar Recessions and Recoveries

On average, each of the 12 recessions since the end of World War II has lasted almost 22 months, and market recovery times have ranged from two months to a little over five-and-a-half years.

Source: T. Rowe Price calculations based on data from S&P Dow Jones Market Indices and RIMES as of 4/15/21. Additional information about the S&P can be found under Important Information on the last page. *Low date for the S&P 500 Stock Index during recession, as defined by the National Bureau of Economic Research (NBER). See nber.org. **Approximate time it took the S&P 500 Stock Index to recover to its pre-recession peak from its recession low.

Past performance is no guarantee of future returns. All investments are subject to market risk, including the possible loss of principal. Investors cannot invest directly in an index. Charts are shown for illustrative purposes only.

taking a long-term view and continuing to contribute to a retirement plan during a market downturn, as their investments will likely have the potential to rebound, given that retirement could last 30 years or more.

Maximize your IRA contributions

Making consistent maximum contributions can build a significant nest egg over the course of decades of saving (see How Regular Contributions Can Compound Into a Substantial Portfolio). There's still time to contribute to or open an IRA for 2023 (up to $6,500 or $7,500 if you're age 50 or older in 2023.) Every year, you have a nearly 16-month period over which you can contribute to an IRA for that tax year. So, for 2023, you have until April 15, 2024, to make your IRA contribution.

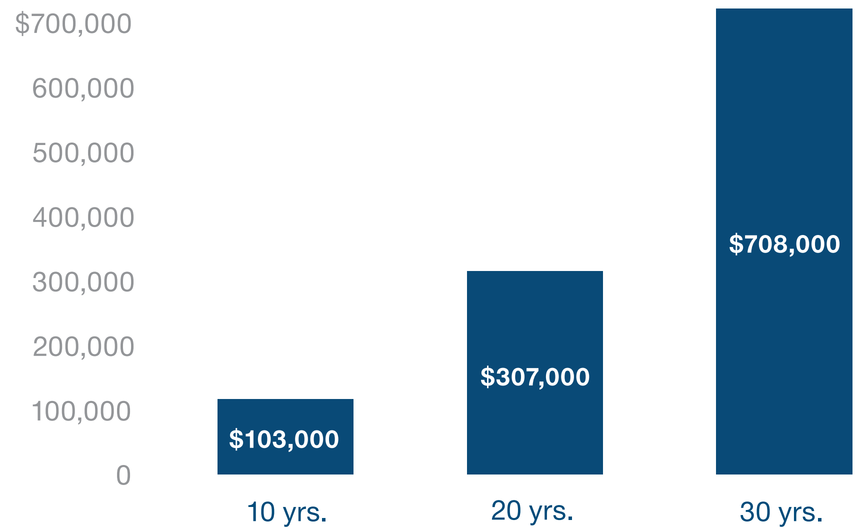
Once you have made your 2023 contribution, you can focus on 2024. Contribution rates will increase to $7,000 for those under 50 and $8,000 for those age 50 or older in 2024.

If you're able to make the full IRA contribution early in the year, it could have a significant impact on your savings over the long term. This is because early contributions give your IRA savings more time to benefit from potential investment growth.

Accelerating contributions by a few months may not seem like a big deal for one year, but it can have a significant impact over the long term. While investments are not guaranteed to grow every year, over time, you are likely to benefit from being invested longer. Of

How Regular Contributions Can Compound Into a Substantial Portfolio

A $7,000 contribution each year can potentially grow over time thanks to tax-deferred compounding.



This graphic is for illustrative purposes only and does not represent the performance of any specific investment. This example assumes a hypothetical 7% annual rate of return in a tax-deferred account. All values used in this illustration are approximations using rounded figures and are not exact. All investing is subject to risk, including possible loss of principal.

course, there may be reasons why you can't contribute to your IRA at the start of every year and may choose to fund it throughout or later in the year. You may be able to schedule recurring, automatic transfers from your bank account to put your contributions on autopilot.

Should I contribute to a Traditional or Roth IRA?

Individuals with earned income may have a choice between Traditional and Roth retirement accounts. But how do you choose which account to open? Taxes are a primary factor to consider. You don't want to pay more in taxes than necessary, so choose carefully.

The tax treatment of Traditional and Roth accounts varies considerably. That's because the way you put money into these accounts and how you take it out later is very different:

- **Traditional IRAs** are generally funded with money on a pretax basis, meaning that they're tax-deductible (subject to income limits), reducing your taxable income and essentially giving you a tax break for the same year. However, that tax break comes with strings attached. When it's time to start taking money out of those accounts, you're going to have to pay taxes on every dollar you withdraw.
- **Roth IRAs**, on the other hand, are funded with money that you've already paid taxes on. So, contributing to a Roth IRA doesn't reduce your taxes today. However, qualified distributions are tax-free. (Generally, a distribution of earnings is qualified if taken at least five years after the year of your first Roth contribution and after you've reached age 59½.)

Working individuals who meet IRS income limitations can contribute to a Roth IRA or make pretax contributions to a Traditional IRA.

If you aren't currently contributing to an IRA, or are contributing but not reaching the maximum limit, now may be a good time to open an account or increase your contributions regardless of market performance. It may feel counterintuitive to invest during periods of market volatility, but taking a long-term view can help you weather the uncertainty while keeping your savings on track.

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Important Information

An IRA should be considered a long-term investment. IRAs generally have expenses and account fees, which may impact the value of the account. Nonqualified withdrawals may be subject to taxes and penalties. Maximum contributions are subject to eligibility requirements. For more detailed information about taxes, consult IRS Publication 590 or a tax professional regarding personal circumstances.

Call 1-800-225-5132 to request a prospectus or summary prospectus; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

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