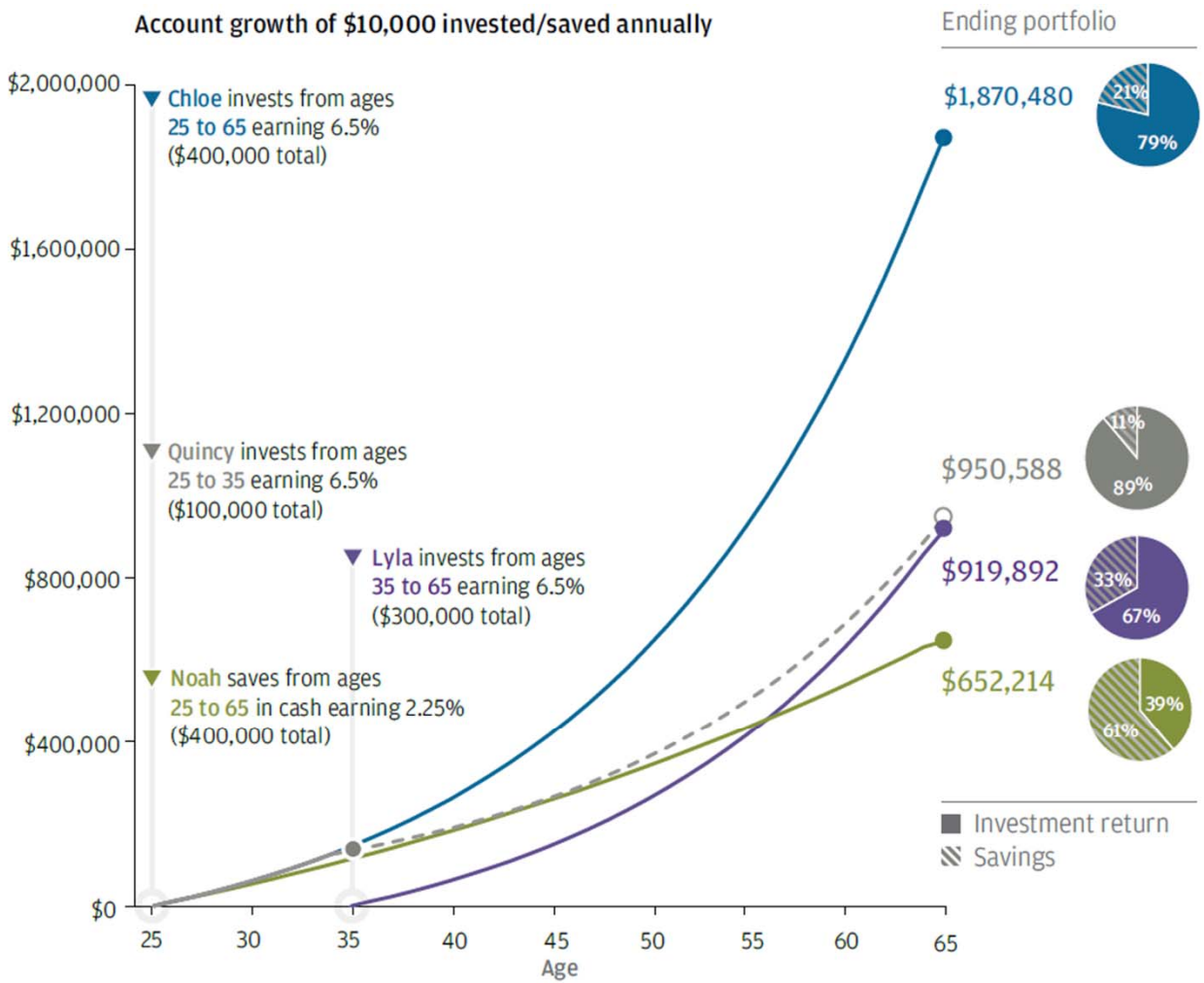
Benefit of saving and investing early

Saving



SAVING FUNDAMENTALS

Saving early and often, and investing what you save, are keys to a successful retirement due to the power of compounding over the long term.

The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 6.5% annual return and cash assumes a 2.25% annual return. Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions. Compounding refers to the process of earning return on principal plus the return that was earned earlier.

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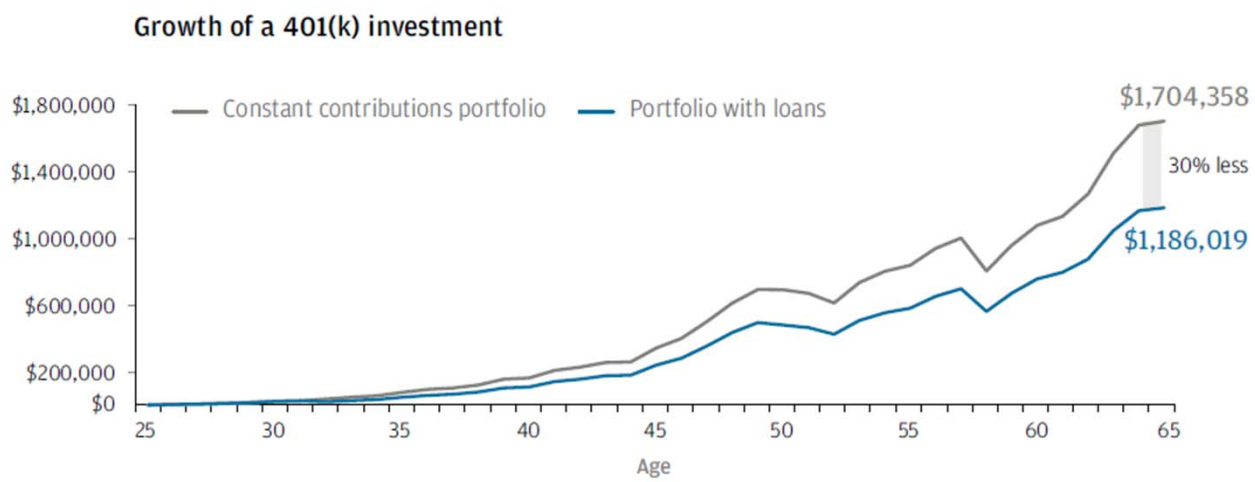
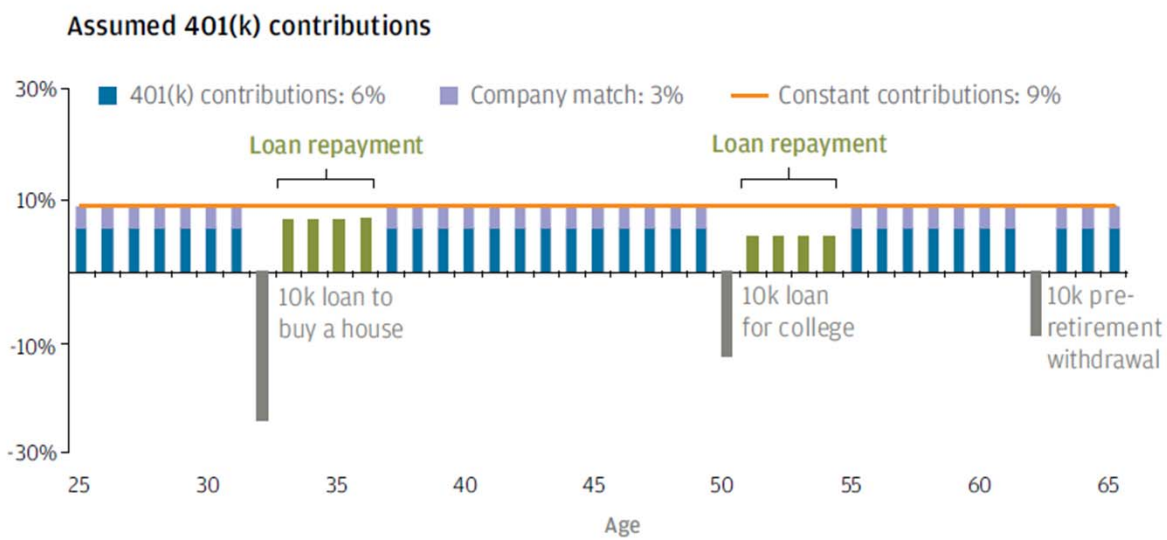
The toxic effect of loans and withdrawals

Saving





AVOID TEMPTATION

A 401(k) is for long-term retirement savings, not an emergency reserve fund. Investing with a steady contribution rate over time can maximize your account value. Taking loans and early withdrawals can drastically impact your total savings.

Source: J.P. Morgan Asset Management. For illustrative purposes only. Hypothetical portfolio is assumed to be invested 60% in the S&P 500 and 40% in the Barclays Capital U.S. Aggregate Index from 1975 to 2015. Starting salary of $30,000 increasing by 2.25% each year.

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Retirement savings checkpoints

Saving

Current Age	$30,000	$50,000	$75,000	$100,000	$150,000	$200,000	$250,000	$300,000
	Checkpoint (x current household income)							
30	-	0.4	1.1	1.3	1.8	2.1	2.3	2.4
35	0.3	0.8	1.6	1.9	2.4	2.8	3.1	3.2
40	0.6	1.2	2.2	2.6	3.2	3.7	4.1	4.2
45	1.0	1.8	3.0	3.4	4.2	4.8	5.3	5.5
50	1.5	2.5	3.9	4.5	5.4	6.2	6.7	7.0
55	2.1	3.3	5.1	5.7	6.9	7.9	8.5	8.8
60	2.9	4.3	6.5	7.3	8.8	9.9	10.7	11.1
65	3.9	5.6	8.4	9.4	11.3	12.7	13.7	14.2

How to use:

- Go to the intersection of your current age and your closest household income.
- Multiply your household income by the checkpoint shown to get the total amount your household should have invested today, assuming you continue to save 5% going forward.
- Example: For a 40-year-old with a household income of $100,000: $100,000 x 2.6= $260,000.

MODEL ASSUMPTIONS

Pre-retirement investment return: **6.5%**

Post-retirement investment return: **5.0%**

Retirement age: **65**

Years in retirement: **30**

Inflation rate: **2.25%**

Confidence level represented: **80%**

Assumed annual contribution rate: **5%**

This chart is for illustrative purposes only and must not be relied upon to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital market assumptions (10-15 years). Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2011-2014); Social Security benefits using modified scaled earnings in 2016 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums; and 2016 OASDI and FICA taxes. Households earning $30,000 will need to replace at least 16% of their pre-retirement income; $50,000 23%; $75,000 34%; $100,000 38%; $150,000 45%; $200,000 51%; $250,000 55%; $300,000 57%. The income replacement needs may be lower for households in which both spouses are working and the second spouse's individual benefits are greater than their spousal benefit. Single household income replacement needs may vary as spending is typically less than a two-spouse household; however, the loss of the Social Security spousal benefit may offset the spending reduction. Consult with a Financial Advisor for a more personalized assessment. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

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Traditional IRAs vs. Roth IRAs—2015/2016

	Traditional IRA	Roth IRA conversion	Roth IRA
Maximum contribution	• $5,500 (earned income) • $6,500 (age 50 and over)[1] • Reduced by Roth IRA contributions	No limit on conversions of Traditional IRAs, SEP IRAs, SIMPLE IRAs (if open 2+ years)	• $5,500 (earned income) • $6,500 (age 50 and over)[1] • Reduced by Traditional IRA contributions
Age limits to contribute	Under 70½ in the year of the contribution	None	None
Income phase-out ranges for contribution deductibility	**2015/2016** Single: $61,000-$71,000[2] Joint: $98,000-$118,000[2]	N/A	All contributions are non-deductible
Phase-out ranges for Roth contribution eligibility	N/A	N/A	**2015** Single: $116,000-$131,000 Joint: $183,000-$193,000 **2016** Single: $117,000-$132,000 Joint: $184,000-$194,000
Federal tax treatment	• Investment growth is tax deferred and contributions may be tax deductible. Deductible contributions and investment gains are taxed as ordinary income upon withdrawal. • If non-deductible contributions have been made, each withdrawal is taxed proportionately on a pro-rata basis, taking into consideration all contributions made to all Traditional IRAs owned.	• Taxes are due upon conversion of account balances not yet taxed. • Qualified withdrawals of contributions at any time are tax free and IRS penalty free; converted amounts may be withdrawn tax free.[3] • Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59 ½ or older (other exceptions may be applicable). • Multiple Roth IRAs are considered one Roth IRA for withdrawal purposes and distributions MUST be withdrawn in a specific order deemed by the IRS that applies regardless of which Roth IRA is used to take that distribution.	
Early withdrawals	Early withdrawals before age 59½ are generally subject to a 10% IRS penalty unless certain exceptions apply.		
Mandatory withdrawals	Distributions must begin by April 1 of the calendar year following the year the account owner turns age 70½.	None for account owner	None for account owner
Deadline to contribute	**2015:** April 18, 2016* **2016:** April 18, 2017	n/a	**2015:** April 18, 2016* **2016:** April 18, 2017

* Residents of Maine and Massachusetts have until April 19, 2016 to make contributions because of the Patriots' Day holiday in those states..

Source: IRS Publication 590

[1]Must be age 50 or older by December 31 of the contribution year.

[2]Assumes participation in an employer's retirement plan. No income limits apply when investors and spouses are not covered by a retirement plan at work.

[3] Distributions from a conversion amount must satisfy a five-year investment period to avoid the 10% penalty. This pertains only to the conversion amount that was treated as income for tax purposes. The presenter of this slide is not a tax or legal advisor. Clients should consult a personal tax or legal advisor prior to making any tax- or legal-related investment decisions.

Reference

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Retirement plan contribution and deferral limits—2015/2016

Type of Retirement Account	Specifics	2015	2016
401(k), 403(b), 457(b)	401(k) elective deferral limit/catch-up contribution (age 50 and over)	$18,000/$24,000	$18,000/$24,000
	Annual defined contribution limit	$53,000	$53,000
	Annual compensation limit	$265,000	$265,000
	Highly compensated employees	$120,000	$120,000
	403(b)/457 elective deferrals/catch-up contribution (age 50 and over)	$18,000/$24,000	$18,000/$24,000
SIMPLE IRA	SIMPLE employee deferrals/catch-up deferral (age 50 and over)[1]	$12,500/$15,500	$12,500/$15,500
SEP IRA	Maximum contribution[2]	$53,000	$53,000
	SEP minimum compensation	$600	$600
	SEP annual compensation limit	$265,000	$265,000
Health Savings Accounts (HSAs)	Maximum contribution amount/over age 55	**Single:** $3,350/$4,350 **Family:** $6,650/$7,650	**Single:** $3,350/$4,350 **Family:** $6,750/$7,750
	Minimum deductible	**Single:** $1,300 **Family:** $2,600	**Single:** $1,300 **Family:** $2,600
	Maximum out-of-pocket expenses	**Single:** $6,450 **Family:** $12,900	**Single:** $6,550 **Family:** $13,100
Social Security	Wage base	$118,500	$118,500
	Maximum earnings test exempt amounts under FRA for entire calendar year/during year of FRA[3]	$1,310 p/month ($15,720 p/year)/ $3,490 p/month	$1,310 p/month ($15,720 p/year)/ $3,490 p/month
	Maximum Social Security benefit at FRA	$2,663 p/month	$2,639 p/month
Defined benefit—maximum annual benefit at retirement		$210,000	$210,000

[1] Employer may either match employee's salary reduction contributions dollar-for-dollar up to 3% of employee's compensation or make non-elective contributions equal to 2% of compensation up to $265,000.

[2] Employer contributions may not exceed $53,000 or 25% of compensation. Other rules apply for self-employed individuals.

[3] In calendar years before FRA, benefit reduced $1 for every $2 of earned income above the limit; during year of FRA, benefit reduced $1 for every $3 of earned income in months prior to FRA.

Reference

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Options to consider when retiring or changing jobs

There are typically four options to consider when leaving an employer's retirement plan, each with its benefits and considerations. Converting a portion of tax-deferred assets to a Roth IRA may be a fifth option to consider in certain circumstances described below.

Option	Potential Benefits	Considerations
Roll the retirement account into an IRA account (IRA rollover) **(May also roll the Roth 401(k) portion of a retirement account into a Roth IRA)**	• No income taxes or penalties for a direct rollover[1] • Assets maintain tax-deferred status • Ability to make additional contributions subject to income limitations[2] • Potential for a broader range of investment choices • Opportunity to consolidate multiple retirement accounts • If balance includes employer stock, may be eligible for preferable tax treatment (Net Unrealized Appreciation)[3]	• Loans are not allowed • Fees may vary, and may be higher than what is charged in an employer plan
Leave the money in former employer plan	• Not a taxable event • Assets maintain tax-deferred status • If you are between 55 and 59½ and are separated from service, you may be able to take withdrawals without penalties • Fees may be lower depending on plan size	• Investment options vary according to the plan and may be more limited • Assets are subject to policies and contractual limitations of previous employer plan
Move the assets into a new employer plan	• No taxes or penalties apply upon transfer • Assets maintain tax-deferred status • New employer plan may allow loans • Ability to make additional contributions potentially with a company match • Fees may be low based on plan and size of employer (number of participants)	• May require a waiting period to move assets • Investment options vary according to the plan and may be more limited • Assets are subject to policies or contractual limitations of new employer plan
Withdraw balance of assets or "cash out" of plan	• Individual may use remaining funds (after taxes and potential penalties) for other purposes	• Upon withdrawal, account balance is subject to ordinary income tax on pre-tax contributions and investment earnings • 20% automatically withheld for taxes upon distribution • Additional 10% withdrawal penalty tax may apply for owners younger than age 59½ Additional federal, state or local income taxes may apply • Loss of tax-deferred growth of assets
Convert all or part of retirement account into Roth IRA (Roth IRA conversion)	• May provide income tax diversification in retirement • After taxes are paid at conversion, future distributions are tax free[4] • Required minimum distributions do not apply at 70½	• The pre-tax amount is included in gross income in the year of conversion (and is subject to the aggregation rule) • Sufficient taxable assets to pay income taxes owed is strongly recommended

[1] In a direct rollover, qualified retirement assets are transferred directly from the former employer plan to the institution holding the new IRA account, and no taxes or penalties will apply. If an owner chooses to receive the plan assets first, the distribution is subject to 20% mandatory withholding and the assets must be deposited into a new plan or IRA account within 60 days of receipt to avoid further potential taxes and penalties.

[2] Subject to IRA contribution limits: $5,500 / $6,500 in 2015 (if age 50 or older); single filers may make Roth contributions if MAGI is $116,000 or below; married filing jointly if MAGI is $183,000 or below; phase-outs on contributions thereafter.

[3] With the Net Unrealized Appreciation (NUA) strategy, an employee may transfer the employer stock portion of a retirement account to a brokerage account. The employee pays ordinary income tax on the cost basis of the stock at the time of transfer, but will owe capital gains tax when he/she later sells the stock.

[4] Subject to 5-year Roth account holding period and age requirements.

Reference

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