

THE TRUTH ABOUT RETIREMENT PLANS (QUALIFIED PLANS)



By Dawn Santoriello, President of D.S. Financial Strategies

Qualified Retirement Plans (QP) do two things – Defer the payment of taxes (but they do not necessarily save taxes) and defer the tax calculation.

Let me illustrate how QP's actually work: If you came to me looking to borrow money and I gave you a check for \$10,000, what are the two questions you are going to ask me before you cash that check? (1) When do I have to pay it back? (2) How much interest are you going to charge me?

If I told you I don't need the money now, but there will come a time in the future when I do, and at that point I will calculate how much I need and what interest you will have to pay me – are you going to cash that check? No way! But that is exactly what the government is doing with qualified plans.

There is value in putting money in a 401K up to the match, but not a penny more. Most people think that by retirement age, they will be in a lower tax bracket. My response: do you really want to reduce your standard of living or do you just want to pay the least amount of taxes? They want to pay the least amount of taxes when they retire but this isn't always the case. If you are in a lower bracket, then you will be better served by deferring the taxes.

The national debt is \$22 trillion and rising and we haven't even seen the biggest wave of baby boomers retiring yet. 70% of baby boomers are set to retire between 2022 and 2030. Guess where most Americans have their wealth? Yes, in their retirement plans.

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**Building Permit Plans...
The Maze.**

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<p>How Do I know if I need a Building Permit Plan? What does the typical Building Permit Plan consist of? What grading or elevation needs to be shown?</p>	<p>What other Agencies will be involved? How long of a process is this? How much does a Building Permit Plan cost?</p>
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On-site Sewage Disposal System Inspections...Let it flow.

BE SURE TO ASK THESE IMPORTANT QUESTIONS!

<p>Are you buying a house served by a septic system? What type of Septic System do I have? Where are the components of my Septic System located? What is a septic tank?</p>	<p>What is a drainfield? Should the septic system be inspected? How much does an On-Site Sewage Disposal System Inspection cost?</p>
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THE TRUTH ABOUT RETIREMENT PLANS

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Who do you think the government is going to go after — the people who have money or the people who don't? Based on this, the odds that you will be in a lower tax bracket are very low.

Many Americans follow what their co-workers or friends are doing. This can lead to poor decisions and some not so good surprises at retirement. Over their lifetime, people drive to work every day, in cars that were most likely financed and replaced every 3-5 years, while they overfund their retirement plans at work so they could get a tax deduction, and hurry up to pay off their house as quickly as possible, with the hope that then they can really start saving for retirement. In doing this they received a deduction (QP) only to lose a deduction (home mortgage). QP's have many inefficiencies.

Whose retirement dream are you chasing?

Will you be chasing your dream... or Uncle Sam's? Here is a good example: (numbers rounded)

- Annual contribution to 401K/or IRA= \$6,000 x 35 years=\$210,000 total contribution
- Assuming a 32% tax bracket
- Tax savings: \$6,000x 32%=\$2,000 x 35years=\$70,000 total savings

- 35 years later account balance earning 7.5% for 35yrs grew to \$1,000,000 and they are only going to withdraw the interest.

\$ 1,000,000	
X 7.50%	
\$75,000	Retirement Income
X 32% Tax Rate	
\$ 24,000	Annual Tax
\$ 51,000	Net Spendable Income
\$ 70,000	Tax Savings for 35yrs
\$ 74,000	Taxes in 1st 3 Retirement Years
\$ 480,000	Total tax by year 20

In this example, the person "saved" \$70,000 in taxes only pay \$480,000 in a 20 year retirement. This is if tax rates stay the same! Which I don't believe will happen.

There is some good news

You have choices, and there are alternatives to qualified plans to save money, vehicles that also let you enjoy tax free treatment. If you are interested in learning more, perhaps we should meet to discuss your options.

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