

Tax-Free Retirement

by Patrick Kelly (2007)

If you follow the masses, you will end up like the masses. If you dare to be different, your life will have a significant impact. Most do not know how much money they will need to retire. Set a goal, pay yourself first (10% min of gross), start today & be consistent. Compound interest can be an amazing thing if we let it work for us. Wait for major purchases (except for home) until later in life and invest that money so we will have money for retirement and pay cash for the item.

We are taxed on every dollar we remove from an IRA, 401k, etc (tax deferred to the rate of 35% fed + 10% state & possibly 10% early penalty or 15% estate tax). Years of compounded interest only created a larger tax base for the government. Spend less than you have, don't buy on impulse & resist desire for instant gratification. Most people don't save and retire poor (save now). Unless you put knowledge into action it is worthless. Get rich quick schemes only waste money.

People who give a set portion of their income to charity are better savers & money managers. Only actions speak our true beliefs. Taxes will go up (Social Security, Medicare & other tax payer bailouts). We cannot take distributions from IRAs before age 59.5 and we must begin taking distributions by age 70.5 (or pay 50% excise tax). People should have 7-10 times their annual income in liquid cash or life insurance to properly protect their family. People who stayed within their budgets when young tend to do so in retirement (spend only the interest, not principal). Tax-qualified plans (IRA) can pass on to surviving spouses with no estate tax, but kids pay estate tax.

He believes the best place to save for retirement is in a permanent (universal) life insurance contract. Term insurance is like renting & permanent is like buying a home. Term costs less while young, but more when older. Permanent builds equity. Both end when premiums stop. Capital gains tax is applied to investments held less than 12 months (stock, mutual funds, real estate). Government bonds, Roth IRA & life insurance are tax free. Bonds don't pay well and Roth IRA accounts are limited. Invest the minimum to get the maximum from employer matching 401k programs.

If there is no need for life insurance and you are investing less than \$4000/yr use a Roth (& if you are close to retiring). 99% of life insurance clients choose to pay the minimum payments & if projected rates were too high the cash value doesn't grow like it should. A loan can be taken against the cash value and not paid back until death tax-free (up to the amount contributed). At death, all proceeds from the life insurance contract (death benefit + cash value) are paid to beneficiary tax-free.

It is imperative that the policy stay in force (premiums paid) until the insured's death or the money taken out becomes taxable. This strategy is best suited for those with large income & contributing to a tax-qualified plan. The flexibility allows deposit amounts to vary from year to year (make up for previously missed contributions above minimum). People with poor health or older may not be good candidates for this strategy. You can set this up for kids and control it until you seem they can. Dream Big! Make a Difference! Leave a Legacy!

Landmines: Lack of planning; Procrastination; Debt interest; Instant gratification; Following the masses; Inertia; Get rich quick schemes; Lack of generosity; Acting like the future isn't coming.

Story: Charles Blondin in 1859 tightrope-walked with a wheelbarrow across Niagara Falls. Asking the audience if they believed he could do it then get in the wheelbarrow. John Akhwari was an Olympic marathoner from Tanzania was asked why he didn't quit. "My country didn't send me 7000 miles to start a race. They sent me here to finish the race."

Quotes: "You never know who is swimming naked until the tide goes out." (Warren Buffet)
"People don't plan to fail, they fail to plan."

Other books to read: Your Money or Your Life (Joe Dominguez & Vicki Rubin)

See his website at www.taxfreebook.com