

# Talk of the Town

## The Power of Zero & Planning For a Tax Free Retirement



James D. Stillman

I have one simple question for all our readers. In the future, do you think tax rates will go up, go down, or stay the same? If you're one that thinks they're going down or staying as is, then what I'm going to say won't have much meaning for you. But if you're like the other 99% of us that believe taxes will likely be going up, then maybe this article will have some value and give you another perspective.

Ladies and gentleman, we are in the midst of a gathering storm! Currently tax rates are still at historic lows when looking back at the time since 1913 - when the federal income tax was first imposed. It's been as high as 94% (1943)! From 1936-1981, the top federal income tax rate never dropped below 70%! Ed Slott, CPA and one of America's retirement experts, says that taxes may double and all of us that have 401(k)s, IRAs, etc. have "The Government Plan", and not your own.

Remember, revenue-hungry Uncle Sam is your partner when investing in "qualified" retirement accounts, and all he has to do is increase taxes to get a bigger share of your retirement. On January 11, 2011, a CPA named David M. Walker appeared on national radio and made a grim prediction: Based on the current fiscal path, future tax rates will have to double to prevent our country from going bankrupt! Why? Debt, birthrates, baby boomers, etc. all add up to the problem! It's a math problem, to put it simply! We cannot sustain the mathematical path we are on and survive. So, who is David M. Walker anyway? For eleven years starting in 1998, David Walker served as the Comptroller General of the United States and as the head of the Government Accountability Office. In short, he was the CPA for the USA and the nation's chief auditor. In other words, HE KNOWS WHAT HE'S TALKING ABOUT!

So, back to that tax free retirement thing and "the power of zero". When it comes to retirement, it's all about "spendable dollars" and spending with confidence. If you were a farmer, would you rather pay tax on the seed or the harvest? Basically, it's the "pay me now or pay me later" concept we're looking at. In most instances, paying later costs more. You can apply this to retirement planning also. If you know that taxes will go up in the future, then why would you put money into a retirement vehicle that essentially guarantees you'll pay more taxes later, which happens to be when you need the money most? Ed Slott (remember - "America's IRA guru") proposes that if you go from "forever taxed to never taxed", then you will have a much more successful retirement. Now, I know all the CPAs out there are saying that it's good to use "qualified" accounts because you save taxes now, 401(k)s have an employer match, you'll be in a lower tax bracket when you retire, etc., etc. But here are a few things to consider: most retirees lose deductions & exclusions for tax purposes, many of them don't actually lose that much income in retirement (if proper planning was done), and that you don't really know what future tax rates will be. If tax rates double, then it's all a moot point anyway.

So how do you solve this tax problem? Basically there are two ways: Roth IRAs or investment grade life insurance - commonly known as a LIRP (Life Insurance Retirement Plan). Most people are familiar with Roth IRAs, but very few understand how a Life Insurance Retirement Plan works. About 85% of Fortune 500 Company CEOs use LIRPs, as well as many members of Congress. Bottom line, the income derived from either (Roth or LIRP) is income tax free - as long as certain criteria are met. This is what gives you "the power of zero"! We'll discuss both in more detail in next month's article. Remember, sometimes zero is your hero!

As always, for a free consultation, additional information, or a free analysis of your current situation, just contact us at JDS Wealth Management. We offer various free reports, a free cost & risk analysis, and a free tax analysis of your current portfolio and retirement plan.

Until next month,  
James D. Stillman

  
Wealth Management Corp.  
(704) 660-0214  
jdswealthmanagement.com

(704) 660-0214  
jdswealthmanagement.com  
119-F Poplar Pointe Drive  
 Mooresville, NC 28117

