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Retirement Income Strategies

THE *five* MOST COSTLY WAYS YOU COULD BE *losing money* ON THE *road to retirement*

In more than 20 years in financial services, I have yet to meet someone who feels like their financial plan for retirement is *complete*.

Top of mind for most clients are questions like,

How much should I be saving and investing?

How long am I going to have to work before I can retire?

But nearly everyone I meet hasn't thought to ask one of the most important questions of all.

How much money am I losing?

There's so much emphasis placed on gaining wealth for retirement, but *just* as *important* is preventing the loss of the money you already have, your overall financial security, or your potential for growth!

There are two ways you might be losing money: *unknowingly* and *unnecessarily*.

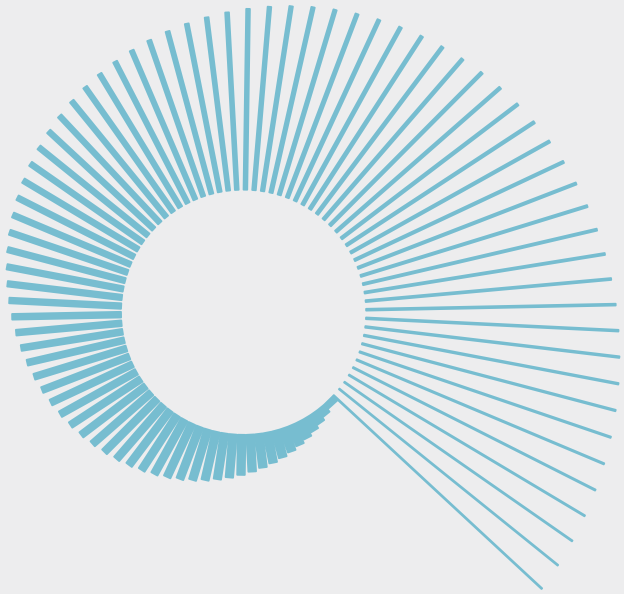
unknowingly

**Means you didn't know it was happening.
You can give yourself a pass on that one.
It happens to the best of us.**

unnecessarily

Means that we can fix it!

The following are the *five* places where the vast majority of Americans are losing their wealth and earning potential *unnecessarily* and *undercutting* their path to a confident, joyful retirement.



ONE
mortgages

Most people are working very hard to pay their *mortgage* off as fast as they can and *save* on the interest charges.

We agree that having your house paid off is an advantageous financial position. However, how you pay your house off makes all the difference.

When you use your own cash to pay off a mortgage faster - or avoid one altogether - it's called "self-financing."

One way or another, this is going to drain your savings of a large amount of cash, and once that cash is spent, it no longer has the potential to earn interest for you.

Knowing that . . .

What if the rate of return you earn on interest in your savings is equal to the interest rate on your mortgage?

In this case, your house will cost the same either way, whether you pay cash now or continue with your monthly payments. If you give up a large amount of cash from your savings to pay a mortgage off in advance, you lose . . .

- *The ability to make interest* on that cash.
- *A vital financial safety net* for you and your family. You will have given up a large amount of capital that could be used in emergencies.

Very often, you lose far more than you gain by using cash to pay off a mortgage in advance, but it's hard to see this truth in the absence of a clear, comprehensive financial strategy.

TWO

taxable accounts

Beyond the obvious ups and downs of financial markets, *taxable accounts* have another way of causing investors to lose money *unnecessarily* - the taxes themselves!

For each year that the account generates taxable growth, taxes are paid annually.

As the account compounds, the taxes on the account grow as well.

Here is an example:

- **$100,000 invested at 6% for 30 years would grow to $574,349. *Not bad!***
- **However, in a 30% tax bracket, this would require $142,305 in taxes over that time!**
- ***The net result is $432,044 - only 75% of what the account value would be if it had been invested in a tax-favored environment* instead of a taxable account.**

When you have a comprehensive financial plan for retirement in place, it's easier to spot unnecessary losses like this and restructure your investments to *pay the minimum tax possible.*

THREE
qualified plans

The IRS doesn't see a tax-deferred *qualified plan* like a 401(k) or a Roth IRA the same way you do.

From your point of view, it's a place where you save your nest egg for retirement with pre-tax dollars. From the IRS's point of view, all of that *money is not yours*!

They see it as a place to collect taxes in the future. *Your nest egg belongs to them first*, and you can have what's left over! *(How kind of them.)*

So, there are two really important things to think about here:

First, the taxation of your money has been deferred until retirement. A better word for this is really "*postponed.*"

However, something else important has been "postponed" - your tax calculation! We don't know what tax rates will be in the future. They might be higher or lower when your money is withdrawn.

This creates a major risk factor for potential loss of money down the road. Now, qualified retirement plans aren't bad, particularly if you receive a matching contribution from your employer.

We just believe that you should understand how they work. It takes careful long-term planning to assess this risk and weigh it among the rest of the activity in your financial portfolio.

FOUR

college planning

Paying for college requires a *complicated* financial formula that leads parents to make a big mistake in how they manage their money.

Here's how that happens.

Typically, there are four main sources of funds which can be used to pay for your children's higher education.

1. *The first is what we call free money*. This is money provided from an outside source that reduces your out of pocket expenses, like a scholarship, grant, or need-based financial aid.
2. *There is found money* which represents finding inefficiencies and wealth transfers in your current finances.
3. *Borrowed money* can be used in the form of loans.
4. *And then there is saved money* specifically designated to paying for college.

But what happens if all four of these methods are not enough?

In the event of a shortfall, parents are tempted to tap their retirement savings to make up the difference. You should avoid this at all costs!

Don't plan for college with your own money at the expense of planning for retirement. There are other options for college. Solving a short-term college funding issue by damaging your long-term retirement plans could be the wrong tradeoff.

In the absence of a comprehensive financial strategy for retirement, it's easy to make mistakes like this. A strategy becomes the guard rail to protect you and guide you to other options.

FIVE
major capital purchases

There are *two ways* to make a major purchase - pay *cash* or *finance*.

Most people believe that paying cash for a major purchase instead of financing is a *better decision*, but if you read the bit on mortgages above, you already know this might *not* be the case.

***Say you want to buy a $30,000 car, and you just happen to have an account with $30,000 in it.* If the interest rate on your loan is the same that you earn on your savings or investment account, it will actually cost you the same to purchase the care either way.**

In a scenario like that, what's the difference?

- **If you pay cash, you lose liquidity.**
- **You lose access to $30,000 cash in your account and spend years replenishing it.**
- **You lose the security that comes from having emergency funds on hand or the opportunity to use that $30,000 for other purposes.**

Not every financial loss is about a direct loss of funds.

Sometimes it is about lost opportunity and security, and often, your best decision is to finance a major purchase.

There are so many ways people lose money *unnecessarily* on the road to retirement.

As a Retirement Income Strategist, I make sure you have a clear, customized plan in place that coordinates your tax, investment, insurance, and financial management strategies into a united front.

I search for the missing pieces in your retirement plan. I hunt for the gaps, dangers, and roadblocks, so we can rescue money you would otherwise lose and re-route it towards building your future.

In our first discovery call, we will take a look at your current financial picture. We will start looking for those missing pieces and answering key questions that lead you to a successful retirement.

Schedule a call with me at ckpfinancial@gmail.com or by calling **864.314.4830**.

You can also use this link to schedule an appointment right away.

At Your Service,

Christian Pruitt, EA, RICP
Retirement Income Strategist