Dynamic Chiropractic

Should I or Shouldn't I?

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They are the questions of the ages: will or won't he?; yes or no?; patch or corrective?; coffee, tea, or milk?; one lump or two?; up or down?; is it a bird, a plane, or Superman? These are questions that people have pondered throughout time, and after all is said and done, there will still be no definitive answers. One day, they will probably have an entire room at the Smithsonian Museum filled with these questions, and outside of the room will be a long line of people pondering another question ... should I go in?

The question I am dealing with is one concerning a more current problem that many of you will have to answer for yourselves soon. It has to do with the new IRA that was recently voted into law under the 1997 tax law, commonly referred to as the "Roth IRA." It offers new options to you that are not available under the current old IRA. As you know, the old IRA allows you to put away money before taxes, and that money accumulates tax-deferred. When you withdraw the money at retirement, it is all taxable to you. If you have another type of qualified plan (SEP, profit-sharing, pension, 401K, 403B), then the amount you can contribute to a "deductible" IRA is limited or reduced to zero.

The "new and improved" Roth IRA allows a full contribution to the plan, but the amount deposited is not deductible. The only other restriction is based on your adjusted gross income. If you file single, you can use the Roth IRA as long as your AGI is under $110,000. If you file a joint return, the cap is at $160,000. If you keep the plan for at least five years and don't withdraw money until after age 59 1/2, then all withdrawals are not taxable. There are other differences, but those are the main ones that will have an impact on you.

Let me now state that I personally am not a big IRA fan. Don't get me wrong: it's better than nothing, but that's all that it is! When the IRS will allow you to put away some "real" money, why would anyone just put away $2,000? That's my editorial comment. Now back to the issue at hand.

If you are currently putting money into a regular IRA and part or all of your contribution is not deductible, STOP! That makes no sense, especially now with the new Roth IRA. Under the old plan, if a portion or all of your contribution was not deductible because you had another qualified plan, you had to file a form 8006 each and every year. If you didn't, there'd be big trouble for you in the future. The Roth IRA requires no such forms, and better yet, now all the withdrawals are not taxable. In this case, there is no contest which is better -- Roth wins hands down.

It starts to get a bit more complicated when you take a look at comparing a fully deductible IRA to a Roth IRA, which gives you no deduction on the contribution. I ran a comparison for a couple at age 40. If they put in $4,000 ($2,000 for each) until age 60, the old IRA would yield $585,484, assuming a return of 8% and the tax savings being invested, too. The Roth IRA would only have $489,384, a difference of $96,100. Remember that when you retire, the money comes out taxable from the old IRA and tax-free from the Roth IRA, so if you are planning to still be in a high tax bracket when you retire, the Roth plan is better for you. If you are going to earn less and Congress does not raise the tax rates, then maybe the old IRA is better.

Confused? You should be! Remember, I titled this article "Should I or Shouldn't I," not "Do This: It's the Best!" What would I recommend? I would recommend that you consider following the instructions at the bottom of this article and contact me so I can educate you on what are the different plans that are available to you, including the old IRA and the "new and improved" version. You need to be educated before you jump to any conclusions. Knowledge is power.

I would suggest you take a look at what you are doing (or not doing) when it comes to retirement planning. See if that is providing you with the current tax benefits that are worthwhile to you. Next, run some projections at realistic interest rates and see if the plan will provide you with adequate monthly income when you are ready to retire. That's what this whole exercise is all about. If it shows you that two can live as cheaply as one, but only for half as long and only if one doesn't eat, then it's time to go back to the drawing board! Compound interest is a wondrous thing and can work wonders, if it has time. Give it that, and you will come out a winner!

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