Dynamic Chiropractic

Plan for Before and After

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Before and after what? Before and after you retire, you need to be concerned with two things: accumulation and distribution. These may be considered the *yin* and *yang* of long-term planning and managing assets, both inside and outside of any retirement plans. Not the easiest job in the world. First you buy and save, and then you spend and draw down - a real juggling act!

Most people spend a great deal of time with the accumulation period considering all the standard concerns: what to buy; when to buy it; how much to buy; how long to hold it; when to sell it; should they sell it; why did they buy it; and why did they sell it. You really need to have a plan - a good, long-term financial plan, creating a "roadmap" to financial security.

You have a lot to consider when you are in the accumulation period. What qualified retirement plan is best for me? What are the fees involved in a qualified plan? What are the limitations of these plans? Are the laws concerning qualified plans going to change drastically in the future? Would I be better served not using a qualified plan? Should I buy assets within a qualified retirement plan or outside of a plan? The major consideration here is the tax consequences. Assets purchased within a qualified plan are purchased with "pre-tax" dollars. You pay taxes on all of the profits and the assets themselves when you take distribution. They are taxed at your ordinary income tax rate, unless you take distribution before age 59½. If so, you not only pay ordinary income taxes but a 10 percent penalty for early distribution. The Roth IRA is different. Deposits to the Roth are made with "after-tax" dollars. The distributions come out "tax-free" if you follow the guidelines.

Assets purchased outside of a retirement plan are bought with "after-tax" dollars. You are taxed every year on any dividend or capital gains distribution and upon selling the asset; you are taxed on any gain. As you can see, taxes play a very important role in your decisions. A properly structured financial plan should take into consideration accumulation vehicles and strategies both on a pre-tax and after-tax basis.

The distribution phase usually is not considered until it's almost time to start withdrawing money. It, too, has potential pitfalls to be considered. Will you have enough assets or will you outlive them? Will the rates of return not keep up with inflation and will taxes erode your assets to a point that your distribution comes to a screeching halt? "Living too long" can pose a greater threat than taxes. Longevity poses a greater danger than the investment risk. Proper asset allocation can help with investment risk, but the longevity risk is always there and there is very little you can do about it. You never know how long a person is going to live. Many financial planners overlook this potential problem and only deal with averages. It all boils down to the fact that more attention needs to be paid to the distribution phase as well as the accumulation period.

What is your situation? Do you currently have a qualified retirement plan? If so, did the person who sold it to you explain all of the ins and outs of your plan? Or did they just cover the "highlights," meaning the reasons why you should buy their plan? Maybe it's time to do a real review to see what your plan is doing for you or, better yet, to you.

Armed with the information from this article, it's time to ask some questions and get some answers.

You need to know if your current plan is the best for *you* and not the best for the person who sold it to you!

If you do not have a retirement plan, what are you waiting for?! You aren't getting any younger; a quick look in the mirror will prove that to you. Before you go "shopping" for a plan, it might be a good idea to decide what you want a plan to do for you. When do you want to retire? Right now, you cannot take the assets in a qualified plan without triggering a penalty until you are age 59½. That is just right now, but will change soon and it will be moving up to an older age. So, do you want to retire before age 60? If so, you need to make sure that your plan can accommodate you.

How much do you want to deposit into a plan? Do you want the tax savings on the deposits, or do you want a retirement income free of taxes? How much do you think you will need as an income to retire and stay retired? Lots of areas to make decisions before you look at any plans. Remember, this is your plan and it should fit you. Make sure that it does.

DECEMBER 2007