THE TOP 4 REASONS TO SAVE FOR RETIREMENT NOW

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WT WEALTHMANAGEMENT

Many people do not realize you have until April 15, 2018, to fund an IRA account, which in many cases could reduce your taxable income. Saving for retirement has many benefits. Yet, many still fail to save for their retirement, for reasons that may sound good but are in fact detrimental. This article contains four genuinely good reasons to save for your golden years ahead.

WT Wealth Management can assist you in self-directed retirement plans, such as IRAs and ROTH IRAs, along with company and self-employed plans, such as Simple IRAs, SEP IRAs, and even solo 401K plans. Funding a retirement plan is the smartest, most cost-effective way to grow assets, thus to secure and insure a comfortable post-career life.

Excuses vs. Reasons

Excuses are merely justifications for failing to do what is in our best interest to do. The four good reasons for saving for retirement are:

1. To not depend solely on the American welfare system to bankroll your retirement.
2. To spare you the necessity of living with your children simply because living on your own is unaffordable for you.
3. To lower your income taxes by putting money away in a tax-deferred IRA.
4. To compound your returns on your investments with tax-deferred savings.

Do those reasons sound better than your excuses? Let's explore each one.

RETIREMENT CONTINUED ON P2

1. **To not depend solely on the American welfare system to bankroll your retirement.**

Although many people depend on the welfare system for emergency financial assistance or as a stepping stone toward financial independence, it's dangerous to make the welfare system your sole source of income when you retire, as it would crimp your lifestyle considerably, and you may not even be able to afford to meet your fundamental needs.

2. **To spare you the necessity of living with your children simply because living on your own is unaffordable for you.**

If you have children, you probably wouldn't mind spending as much time with them as you possibly can. But, for the most part, you probably also want that to be at your discretion, for most people don't want to spend their golden years living with their grown children, whether they welcome you to live with them or see you as an unaffordable encumbrance. Such financial dependency also means you renounce your independence to live as you please.

You therefore must put away enough to meet your retirement expenses; if you're like most people, you cannot count upon receiving a major inheritance or winning the lottery. The channels for savings are either: (1) tax-deferred, or (2) non-tax deferred, ("regular savings"). The advantages of a tax-deferred savings account over a "regular" one are:

- your taxes on your savings are dramatically reduced;
- you can defer (or even avoid) taxes on accumulated investment earnings; and
- earnings are compounded on earnings, resulting in higher dividends than on taxable savings accounts.

3. **To lower your income taxes by putting money away in a tax-deferred IRA.**

If you make deductible contributions to a traditional IRA, it reduces the income you have left, because you must take funds from your savings to make those contributions. If you make salary-deferral contributions to a company savings plan on a pre-tax basis, this reduces the amount of take-home pay you receive. However, the net effect is less than the amounts you contribute to these plans, because the amount by which your income is reduced is less than the amount you contribute.

Let's look at some examples.

Example 1:

- John's annual salary is $50,000, at a 25% income-tax rate.
- He is paid every week, and 10% of each check, or $96, goes into his 401(k) account.
- This reduces his paycheck by a mere $72.

Example 2:

- Ellen's annual salary is $100,000, at a 28% income-tax rate.
- She is paid every week, and 10% of each check, or $192, goes into her 401(k) account.
- This reduces her paycheck by a mere $138.

RETIREMENT CONTINUED ON P3

YIELD CURVE CONTINUED

Additionally, these contributions reduce the amount of income taxes you pay.

Example: You put $15,000 into your company retirement account yearly at an 8% rate of return, your tax rate is 28%, and you make this investment over 20 years,, yielding these estimated net results:

Number of Years = Retirement Age - Age [1]	20
Total Value, if Taxed Annually [2]	$568,732.24
Total Tax-Deferred Value [3]	$741,343.82
Income Tax for 100% Surrender [4]	$123,576.27
Total Tax-Deferred Value After-Tax [5]	$617,767.55
[# 5-#2] The Tax-Deferred Advantage [6]	$49,035.31

(Source: Calculator at www.72.net)

You thus save $49,035.31 in taxes by investing in a tax-deferred account, as opposed to a regular savings account.

4. To compound your returns on your investments with tax-deferred savings.

If you add your savings to a regular savings account, the earnings that accrue on those amounts are taxed in the year those amounts are earned. This reduces the amount you have available to reinvest by the amount of taxes you must pay on these amounts.

Example: You invest $50,000, which accumulates interest at an 8% rate, yielding $4,000 in earnings. If your tax rate is 28%, $1,120 goes to the IRS, leaving you with $52,880 to reinvest. You not only lower your taxes but also increase your investment's value after taxes due to the compound effect of tax-deferred growth:

- Net $617,767.55 from a tax-deferred account.
- Net $568,732.24 from an after-tax account.

These figures increase with a longer earnings period and a larger amount saved.

CONCLUSION

The above examples show the compound effect tax-deferred growth creates, which attests to the appeal of IRAs and employer-sponsored 401(k) and similar plans. Roth IRAs can offer tax-free options.

As such, if you are eligible for a Roth IRA or work for an employer that offers Roth 401(k)/403(b), you must carefully determine which is more suitable for your financial profile to maximize the financial security of your retirement.

Plan now, save, and play later, with more money. WT Wealth Management can help you design a plan and strategy to start your road toward a comfortable retirement.

SOURCES

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