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I.R.A. - Individual “Rip off” Account

The information that I am about to go over may be very elementary for some. When I discuss this with some financial people, they scoff at the subject and say things like, “NO DUH!” and “Everyone already knows this!” But what I have found is that most consumers DON’T know this, and as a matter of fact, I myself was not taught this concept. So, I will base this, on what people are being told.

Many people nowadays are being told something like this. Save money on your taxes by putting as much money as you can into a qualified (tax deferred) account. Let your money grow tax free so that you can reap higher benefits in the end. But is this true?

Let’s put that theory to the test.

Let’s say that you have \$200 a month to invest in an account. You can put it in a tax sheltered account, or you can put it in a regular account. Let’s assume that you will get 12% return for 30 years and that the tax rate is 20%.

On \$200, if you take out the tax up front, you will have \$160. If you invest \$160 at 12% every month for 30 years, you will have approximately \$560,000.

On that same \$200, if you invest it tax free for 30 years, it will be approximately \$700,000. 20% tax on that is \$140,000. $\$700,000 - \$140,000 = \$560,000$.

Now, I realize that some of the people reading this have not been blessed with the esoteric wisdom and knowledge of complex numbers that I possess, so I will try to make this as simple as possible.

\$560,000 EQUALS \$560,000!

Putting your money in a traditional IRA (assuming that you stay in the same tax bracket) is not saving you taxes. It is only postponing them! But let’s say that you get to age 59 1/2 and decide to pull out some money, in addition to your job. Or let’s say you decide to splurge and take out a little extra money after you retire (maybe to go on some trips), you can actually push yourself into a HIGHER tax bracket and end up paying MORE taxes! In this particular case, you have put your money in an individual RIP-OFF account.

So, with that being said, it must be stated that there are two different types of IRAs. There are Traditional IRAs and ROTH IRAs. Traditional IRAs are funded tax free and the money that accumulates inside the IRA is taxed when it is withdrawn. A Roth IRA is

the opposite. The money that you put into it is taxed upfront, and it is subsequently withdrawn tax free.

So, if you are thinking about doing an IRA, your decision should be based on what tax bracket you will be in at retirement, compared to what it is now. If you plan on accumulating a lot of money in qualified (meaning that it is not taxed upfront) accounts, and you're resulting income will be in a higher tax bracket, then it would be better to do a ROTH IRA as the money is taxed upfront at the lower rate. This means that you can withdraw the money tax free at retirement.

Now if you are planning to live on less income when you retire, and your retirement income will put you in a lower tax bracket, then it is better to do a traditional IRA where you will be taxed at a lower rate. So you see, whether or not you save money and/or taxes by using an IRA, is dependent solely on your tax bracket. Just putting your money into an IRA for the sake of doing so is not going to save you anything. And, as I demonstrated, it could LOSE you money.

Always keep this in mind. If a financial advisor offers you a game plan for financial success that includes a traditional IRA, what he/she is basically telling you, is that you will retire on less money than you are making right now. This may not be a terrible thing if you have no, or less, debt and fewer expenses. But nevertheless, this is what his/her goal for you is.

Now if your tax bracket will be the same, I would suggest a ROTH IRA. That way, if you decide to pull out money after age 59 ½ but before you're retirement age, you will not have to worry about paying extra taxes.

There is one exception. Let's say that the cut off from one bracket to the next is \$70,000 and you make \$73,000. If you put \$5,000 into qualified accounts, you will only be taxed on \$68,000 (\$73,000 - \$5000). If this pushes you into a lower tax bracket, then a traditional IRA can be advantageous because you can save a lump sum of money to invest.

NOW..... This is all predicated on you choosing to pay tax. If you choose not to pay tax, then a ROTH will do.

I hope this has helped.

Ladies and Gentlemen: I won't dwell on this issue, but this month we are beginning to see coming into being some of the events predicted in Understanding the Federal Reserve System (<http://freeyourmindonline.net/gold.html>). It is only a matter of time before this bubble bursts. If the government (A.K.A. Federal Reserve) decides to print up ANY amount of money (for a so called bailout), it will only devalue the money that you currently have! If not, you will continue to see (at least for some time) stocks continuing to free fall. With the current economy, we are in a lose-lose situation. Learn how to

invest in gold (<http://freemindonline.net/resources/how-to-invest-in-gold.html>), or other precious metals, or you may regret it later.

So, Until Next Time

Free Your Mind... Online

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