November 2006 Newsletter

Are You In Financial Prison?

I recently met with a young couple, Dick and Jane, who had a very interesting story to tell.

They are both professionals and make a very nice income and have a nice house. They also have a nice big mortgage and two nice big car payments.

This seems like the American dream, doesn't it?

Not quite. What they pay in interest to lenders every month is more than what many people have as income. They told me they feel like they are in a financial prison.

Until Dick heard my radio ad and downloaded the report, he never really looked at what was going on. He and Jane read the report, which made them sick over what was going on with all their debt. The worst part was that they have little money available to handle emergencies. They tried so hard to get rid of their credit card debt that they never put any money where they could get their hands on it if a financial problem came up. The credit card debt never went away even though they tried to pay a lot of extra money on it. A few months ago their water heater died and they had to use a credit card to pay the plumber. Jane said that she was sick over that for two days.

Jane told me about her childhood memories of her family being so poor that they didn't have enough money to take care of the basics. She said there were times her dad had to decide between the electric bill and food for dinner.

She never wants to be in that situation EVER again.

Now that her parents are retired, all they have is Social Security to live on. The tough fight to survive while Jane was growing up has not changed. Dick and Jane do what they can to help, but mom and dad are still not living the type of retirement that we all would look forward to.

They want to make sure this doesn't happen to them.

They want to be able to have financial security and be able to live like they want to in retirement. Dick and Jane decided that unless they start doing *something different NOW*, they just may wind up like Jane's parents. Dick told me how the thought of winding up living hand to mouth and "doing without" when they retire, was the push they need to make changes now. No excuses!

Yes, they will have to make some hard choices. They already went over their spending and found a bunch of money they were wasting every month. They will now make sure that money will be available and go into a BOY plan.

They also backed off funding their 401k plans. Dick's employer only matches a small portion of what he is putting in. Jane's employer does not match at all. There is no point in tying up that money that if it is not matched, so they diverted it into their BOY plans so they can get rid of their debt quicker.

They know they will have to stay organized and put limits on how much they spend on everything. **Most people are unwilling to do this.** I think this is a big reason why so many people wind up like Jane's parents.

Dick and Jane sat down with paper and pencil and figured out exactly how much of their money they wanted to spend and where. They also found out that they could easily "pay themselves first" to the tune of 15% of their total income. Using the 85% left after savings, they took care of the basics and planned for dinners out, vacations and the other fun things in life we all need and want. *The secret is that they put a limit on how much they would spend on each of these items.* Now, the money will be there to do the fun things. No more scrounging around looking for vacation money or using plastic without being able to pay off the whole balance when the monthly statement comes.

Success will not happen overnight. They will have to hang in there for a few years before things really get going. But, if they do, they will get rid of the debt sooner rather than later. They will get to where they want to go. I will help them by keeping an eye on things so they stay on course. We will meet periodically and I will recommend adjustments as needed.

Best of all, they are really happy now. They will be able to go on vacation. They will be able to go out on Saturday night. They will be able to buy toys for their dog. They will also be able to get rid of their debt and retire the way they want to.

I am here to help you do the same thing as Dick and Jane. All you have to do is ask!

Why Do I Say Not To Max Out 401k & IRA Plans?

The following excerpt from Pamela Yellen's October newsletter really hits the nail on the head.

I'm going to keep this very simple and assume you're in the mid-range 28% tax bracket and that will never change.

If you were to put $4,000 a year into a traditional tax-deferred 401(k) plan, IRA or pension plan for 24 years, and earn 6% annually on it, you'd have $209,807.

However, since we're assuming you'll still be in the 28% tax bracket when you withdraw your nest egg in 24 years, after paying the taxes you'll end up with $151,061.

But, what happens if you put the same $4,000 a year into a plan where you pay taxes on your contributions in the year you make the contribution, but you get to take your withdrawals tax-free?

After paying taxes on your $4,000 each year (assuming the same 28% tax bracket applies), your actual annual contribution would be $2,880. You do this for 24 years, earning the same 6% annually as in the first scenario.

After 24 years, you'd end up with... $151,061. And you don't have to pay taxes on it when you take distributions.

Whoa! That's the *Exact* Same Amount You'd End Up With in the First Scenario!

However — and this is a **BIG** however — when you withdraw that $209,807 from your 401(k) or other tax-deferred plan, as in the first scenario, you'll have to pay taxes on the ***entire*** $209,807 — that means not only the $96,000 you contributed, but ***also*** on the $113,807 of interest you earned.

On the other hand, when you put that same $96,000 into a Plan ***after*** taxes (like I described in Scenario #2 above), you only pay taxes on the $96,000 you contributed. You can get access to all the growth earned in your plan, tax-free.

Which would ***you*** rather do — pay the government 28% of $209,807 ($58,764)... or 28% of $96,000 ($26,880)?

That's a Whopping 118% More Tax!

But that's only ***part*** of the story...

Another part of the equation you need to consider is, do you think taxes are going to go up or down, long-term? And why?

If you're like most people I polled, you believe taxes will go up, long-term. It's only logical to think so, for many reasons.

One big reason for that is the aging demographics of our country. There will continue to be more and more people receiving benefits from Social Security for every person who is contributing to it.

A second big reason is out-of-control health-care cost increases and expected skyrocketing demands on Medicare.

And a third reason is taxes will likely increase is that ***some***body is going to have to bail us out of the pension crisis now gripping our country. And that "somebody" is going to be me and you.

In fact, top government officials have been describing this combination of factors as a "fiscal hurricane" they're calling a catastrophic "perfect storm."

Officials are saying the only way out would be reduced spending (translation: You're going to get less benefits than you expected), or higher taxes (translation: You're going to pay more for your benefits), or both.

And Earlier This Month, Federal Reserve Chairman Ben Bernanke Said Taxes May Have to Increase by 33%, to Solve This Problem!

ALAN J. ECKSTRAND, LLC
ONE TORRINGTON OFFICE PLZ
SUITE #211
TORRINGTON, CT 06790
Phone: 860-496-1941
Fax: 860-496-4677
Toll free: 866-496-4677
Alan@TheFinanceFixer.com