TAX TIME IS RETIREMENT SAVINGS TIME

This is the time of year when we all have to make our confession to the Internal Revenue Service and pay our taxes due. The most asked question we have is what can an IRA, Keogh, or a Pension or Profit Sharing Plan do to help my tax situation. Our answer is without hesitation a tremendous amount of help.

We suggest taxpayers sit down and figure, not only what the tax savings are today, but also what their investment in a retirement plan will mean to them when they are ready to retire. By doing this, not only do they look at the short run tax savings but also the long-term results of their investments into a retirement plan. We also suggest the “back into” the amount of contributions they would need at their retirement so as to fund the amounts with the proper contribution today.

Certain techniques are available that are easy to follow and make the amount of contributions today seem more realistic by knowing what they will generate when you retire. We suggest you construct a budget of all your monthly expenses you expect after you retire. By doing so, you will have determined how much money you will need to have available on a month to month basis at retirement, After listing your expenses, list your known income you will be receiving after retirement such as, Social Security tax or another company pension. Then, compute your windfall or shortfall. Your windfall being the excess of income over your budgeted expenses at retirement or in most people’ s cases, their shortfall, which is the excess of their anticipated expenses over their income at retirement. This shortfall will be the amount that you will attempt to fund with additional retirement plan contributions. We suggest requesting professional help to compute how much cash you will need at retirement to make monthly payments for you to cover this shortfall. The calculation requires assumptions of annuities and present values which can be best worked out by a professional who understands the calculations. Now that you have computed how much you will need to put away, you now need to determine how much you can afford out of your present earnings.

We suggest you request professional help, at this point, to compute the annual cash needs from present to the date of retirement to help fund your computed shortfall. If you own your own business, a budget of your income and expenses to allow for sufficient cash withdrawals to fund this program should be developed. If you are paid a wage, budget your personal income and expenses to help fund this program. It is important that you work at these programs, manage your current cash and investments, and paying yourself first. Paying yourself first means making available the cash to put into a retirement plan prior to spending it on additional discretionary items either on a personal or business basis.

We find most taxpayers struggle to cane up with the contributions in order to put into their current retirement plan. This should not be necessary, it happens when you have as the only goal the saving of current taxes. A complete program of retirement management, including looking at your current income and expenses, is the only way to approach a planned retirement without financial worries.