[IMAGE]

Retiring Right

By Stanley Greenfield, RHU

Learning how to choose the right retirement plan can be a stressful exercise in financial security, but it's a necessary one. If you don't do your homework, your financial future could be in serious jeopardy. Invest time and energy in making the right choice, and you could be financially comfortable for the rest of your life and leave a little for your loved ones after you're gone.

Retirement Plans

We all have retirement *plans*. Some act on them and put them into place; others just keep thinking about their plans and secretly hoping a rich relative will make those plans come true. Before you get started on setting up any type of plan, here are some questions you need to ask yourself:

- How much can I afford to deposit into a plan?
- Do I really want to tie my money up in a plan?
- Do I really want to wait until age 60 or later to retire?
- Do I want to pay all the fees associated with many retirement plans?

Before you start to look at or compare plans, you need to know what you're looking for. Too many people don't consider that until they have a plan in place, and then it's too late. There are alternatives to qualified retirement plans that should be taken into consideration.

A couple - Copyright â Stock Photo / Register Mark The qualified retirement plan picture is changing at a rapid rate these days. A lot of major companies have decided the plans no longer do what they wanted them to for their employees. Employers wanted the plans to buy employee loyalty, but they don't do that now. Most employees expect an employer to have a plan. But most companies didn't anticipate the expenses involved in keeping a plan current. The IRS has gone on a tear, changing the rules concerning plans almost every year. That has caused a lot of companies to freeze or totally eliminate their plans, and I think that trend will continue.

Most of us, if we're lucky, will spend at least one-third of our lives in some form of retirement, either total or in a work/retirement mode. Based on that estimate, we probably will need to grow a substantial amount of assets to supply a source of income during that extended period of time.

One aspect of retirement planning is the effect taxes will have on a plan. Usually, we are "sold" on the tax savings we will see by setting up a plan. It usually is illustrated by the fact that for every $100 we deposit into a qualified plan, we will "save" $30 in current taxes. Deposit $1,000 and save $300. Deposit $10,000 and save $3,000. That's appealing since everyone wants to save on taxes.

The problem is they never tell you the "rest of the story." What happens when you start taking out the money at retirement? At retirement, the money comes out and is taxed as ordinary income. They usually say you will be in a lower tax bracket at that time. I personally doubt that, since I have yet to see taxes going down or, better yet, that I'm paying less in taxes. The bottom line is for every dollar you save in taxes on deposits to a qualified retirement plan, you ultimately will pay the IRS $10. Yes, it's true, and I'll say it again: For every dollar saved now, you will pay $10 in taxes when you retire.

Now you understand why the IRS doesn't mind giving you a tax break now on deposits to a plan. What you are really doing is setting up a great retirement plan for the IRS! Is that really what you want to do?

There are plans available that offer a tax-free retirement income. You give up the tax savings now so you can have a retirement income free of taxes. That is how the Roth IRA works. The problems with the Roth are that the contributions are limited and the IRS will probably change it or eliminate it in the very near future. The so-called "non-qualified" plans using a life-insurance product work the same way, but without the limitations on the deposits imposed on most plans.

What it all boils down to is you really need to do your homework, examine all the different plans available and see which ones work best for you. It's not an easy task, but it's important so the person you are in years to come will be happy with the decisions you made today.

The 401(k) Vs. the Roth IRA: Why Choose Just One?

The 401(k) and the Roth IRA are two popular retirement investment strategies. Is one better than the other? Should you contribute to both plans? According to Walter Updegrave, senior editor of *Money* magazine, both have benefits. With a 401(k), money comes directly out of your paycheck, and your contributions aren't taxed until you withdraw it (preferably after retirement). Most employers also contribute matching funds - at least 4-6 percent of your contribution, on average.

The Roth IRA has its advantages, too, says Updegrave. Although you're investing after-tax dollars [unlike the 401(k), which uses pre-tax dollars], you can make tax-free withdrawals provided you meet certain requirements. And Roth IRA contribution limits are only slightly lower than 401(k) limits.

Updegrave's suggestion: Put money in both. "[A]s attractive as these plans are individually, they work even better as a pair. Why? Well, think about it. With a 401(k), you're avoiding tax on your contribution today, but paying tax on withdrawals in the future. That means a 401(k) works best if you think your tax rate is higher today than it will be in the future. You're avoiding taxes at a higher rate and paying them at a lower one.

"The reverse is true of a Roth, where you're paying tax on your contribution today and avoiding taxes in the future. Thus, a Roth is a better deal when you expect your taxes will be higher in the future since you're paying the lower tax bill today instead of tomorrow's higher one.

"By putting money in both a 401(k) and a Roth IRA, you're hedging your bets. I call this strategy "tax diversification" because, like asset allocation, it prevents you from making an all-or-nothing bet (although in this case, you're protecting yourself by diversifying your exposure to tax rates instead of different types of investments)."

Resource: "Which Has Priority? My 401(k) or Roth IRA?" Ask the Expert, ww.cnnmoney.com.

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