

# Looking Forward to Create a Sound Financial Future

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In the 6<sup>th</sup> century BC, Aesop gave us a timeless moral in *The Ant and The Grasshopper*: "It is thrifty to prepare today for the wants of tomorrow." In the early twentieth century, Italian writer Luigi Pirandello gave us more food for thought for our preparations: "Whatever is a reality today, whatever you touch and believe in and that seems real for you today, is going to be - like the reality of yesterday - an illusion tomorrow."

What do these wise words have to do with financial planning? Simply stated, it means that being prepared for tomorrow requires you to look forward to what tomorrow will be like. While it can be useful to look at the past at what your parents did to be successful, it may not lead to the best results.

You therefore need to ask what your world will look like when you get to retirement.

More specifically:

- What can you expect from your investments?
- What will your tax burden be?
- Will you retire into the same set of circumstances that your parents or grandparents did?

One thing we know for sure is that the coming two decades will see the largest group of retirees in our history, with over 82 million Americans in or entering retirement. Due to the aging of Baby Boomers and longer life expectancy, the number of people over age 65 will reach almost 20% of the population by 2030, up from 12.4% today.

What does this mean for your nest egg?

For starters, since we're likely to see higher taxes in the years ahead along with lower social security benefits, you will need more of your own resources for retirement. To prepare for these eventualities, you will need to put your current and future resources and assets to their best and highest uses. For most

people, this means their homes and retirement plans (IRAs and 401ks). Let's look at the retirement plan first.

We have been taught for as long as we can remember to maximize our pretax and deferred taxation plans to prepare for retirement. Notwithstanding this advice, most people still haven't saved enough to create a comfortable retirement. According to the Bureau of Labor Statistics, the average amount saved by U.S. households is \$49,944. If you've done better than this, be thankful. But what will happen to your nest egg if the two scenarios outlined above (higher taxes and longer life) come to pass?

What nobody told you when you started putting all of that money away in tax-deferred accounts, was that when you start taking it out you will (a) probably be in a higher tax bracket, and (b) will need to pull more money out to keep the lifestyle you are used to. Regardless of whether you're in a higher tax

bracket or not, you can expect to pay as much as ten times more in taxes over your lifetime than you saved by deferring them.

It may therefore be smarter to stop putting so much money away in these plans, or to pay your taxes early in retirement and put these dollars in accounts that can generate future tax-free income. If you are still working, ask your employer if they will offer the new Roth 401k plan. For those in the 50-plus age bracket, you can create a tax-free retirement plan by putting up to \$15,000 per year into these plans using after-tax dollars. If you are currently maximizing your 401k contributions, you may want to lower the amount to what your company will match, and put the rest into a private retirement plan or a Roth 401k.

The second area to examine is your home equity. Here, traditional wisdom teaches you to pay your home off in order to be debt free. In the process, you tie up hundreds of thousands of dollars that are not growing, and in fact are at grave risk should your home lose value due to market conditions or natural disasters. Senator Trent Lott, for example, lost over \$400,000 in equity when his house was destroyed by Hurricane Katrina, even though he had flood insurance.

We think there is a better way to manage this very important asset. If you could invest these equity dollars and earn a safe, liquid return on them, you could create additional retirement funds that, if invested properly, could generate tax-free income. This concept is best explained

in the book "Missed Fortune 101" by Douglas R. Andrew. Doug has worked with these concepts for over 25 years, and has helped many hundreds of families create more income with less risk and greater choice and control. There are also many professionals trained by Doug to deliver this information in public seminars throughout the country. I would recommend you find one in your area.

Ultimately, creating and preserving wealth requires knowledge and discipline. Knowledge can be learned or purchased, but the discipline must come from you. It would be best to start both today.

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