

Learn the Fundamentals

Planning for a retirement income is like playing a game. We call it: **WINNING THE MONEY GAME**. Like any game, there are rules. In this game the IRS sets the rules, so you need to know what the rules are! There are certain fundamental rules you need to know. Freedom Financial Services can show you how you can effectively use these rules to your advantage. Please feel free to contact us via the Contact Us page of the website for more information and personalized assistance.

The 59&1/2 rule.....This rule says that if you are under the age of 59 &1/2 and try to withdraw any money from a qualified savings account such as your IRA, 401K, SepIRA, 403B, etc....you will have to pay a 10% penalty on the withdrawal plus you will have to pay an additional tax on the withdrawal at whatever tax bracket you are in at the time of withdrawal. For example let's say you needed \$100,000 in a hurry because of a major health related expense, or your 3rd adult child going to Harvard needed this money to finish her last year in college. If your IRA account is the only place you had enough money and you are in the in the 35% tax bracket, your withdrawal of \$100,000 would cause a 10% penalty plus a 35% tax on the withdrawal amount. The result is that out of \$100,000, you get to keep \$55,000 and \$45,000 goes to the IRS.

The 70&1/2 rule.....This rule says that if you decide to start withdrawing income from your qualified retirement account after the age of 70&1/2, you will be faced with an increased tax burden on your income because the government really wants you to start your income stream before reaching the age of 70&1/2. When you start your income stream before the age of 70&1/2 you will be subject to RMD (Required Minimum Distribution). Based on your age and your statistical lifetime span you can determine your IRS approved income stream from your qualified account.

Tax on Social Security.....A lot of people think that once you start your Social Security benefits that this income stream will be tax free. The reality is that you can be taxed up to 85% of your social security benefit because you either have your money in accounts that produce a 1099 income statement or you are continuing to work after 65, or both. The one thing that you can do to avoid giving up this money to the IRS is to move your liquid monies into a non-qualified savings account that grows tax deferred. This will, at least, eliminate or reduce any 1099 income.

The 72t/IRS or 72q/IRS regulation.... this is a regulation that allows a small percentage of your qualified and non-qualified money to be withdrawn without having to pay the 10% penalty if you are under the age of 59 & ½. You will have to pay a tax on withdrawal, but what's important here is where will you invest these monies. The answer should be: Into a savings account that grows tax deferred but comes out at retirement age as TAX FREE. The rule is very simple. Once you initiate the rule you must continue the withdrawal for a minimum of 5 years, or for the number of years it will take for you to reach 59&1/2, whichever is greater. The 72t&q rule is like the farmer who is given the choice of paying taxes on the purchase of his seed or paying taxes on his harvest. If you were the farmer which would you choose? By selecting a 72t or 72q option, you will pay a small tax amount on withdrawal, but following retirement your tax savings will generate increased useable tax free income.

Learn The Fundamentals....Continued

Freedom Financial Services is committed to educating our clients. We do so by reviewing a series of seven steps that are essential in developing a retirement planning strategy which meets with the client's approval. Some of these steps will be more important to some clients than others. By process of elimination, the important steps will emerge as being significant. What will inevitably become clear is:

- Becoming financially independent is not about how much money you can put away, but rather, how much you can save without giving it away. Each of the seven steps has the potential of giving money away due to unnecessary expense, financial loss, or tax liability.
- The importance of understanding the two financial battles that can have a major effect in determining how soon you will be able to retire. To win the money game, you need to **win both the battles of inflation and taxes.**

The steps we would like to review with you are:

- Step (1): Set up a family trust..... **A cost savings expense plus a potential tax savings decision.**
- Step(2): Debt elimination.....Subscribe to our debt elimination plan to become debt free sooner rather than later. **This is a cost savings expense to save more money for retirement.**
- Step(3): Increase Cash Flow.....Subscribe to our cash flow analysis system to increase cash flow. **Redirect cash flow to liquid savings, debt elimination, and retirement accounts.**
- Step(4): Set up an emergency savings account.....From surplus cash flow and debt elimination. **Save for a rainy day. Use these monies in lieu of credit cards.**
- Step(5): Obtain the right life insurance.....We help educate our clients on the different kinds of life insurance that address specific needs and include these needs in the financial planning process. **A potential cost savings step that can prevent loss of income and sale of assets to pay for extensive health related expenses.**
- Step(6): Track your existing retirement accounts....INSPECT what you EXPECT regularly. **Keep what is yours. You may never get it back.**
- Step(7): Build your long term retirement savings account.....Freedom Financial Services educates our clients about how to win the battles of inflation and taxes. We never tell our clients where they should save their money. Instead, we educate clients on how inflation and taxes can play a roll in comparing one savings source to another. Additionally, issues relative to liquidity, growth, risk, tax and penalties, all are weighed in making the final decision. The final choice is always a client decision.

We are ready to assist you with your retirement planning. Contact us with your questions and concerns by clicking on the Contact Us page of this website. We look forward to discussing with you your goals and objectives. Once we have sufficient financial information, we will chart a course of action for you to reach Financial Security and Independence.