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# LIVING DEBT FREE AND TRULY WEALTHY

HELPING MIDDLE AMERICA BE DEBT FREE AND SAVE MORE MONEY

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## Are You on the Right Track?

The two questions most people come up to me and ask are, "how much money will I need to have saved for retirement," and "how do I know if I am on track for retirement?" These two questions are very important to consider. The answer is not as simple as you would believe as there are so many different factors that come into play. Luckily, there is a way to get a general idea if you are on track or not.

First off, in order to determine how much money you will need to have saved, you have to determine how much income you want to make in retirement. For an example, we will say Kairi and Jim are both currently 47 and want to retire at age 67. During retirement they would like to maintain their same style of living. They will have paid off their home but would like to travel more to visit their relatives and see many parts of the world. They figure they will need the same \$90,000 they are currently making to do all this. Then, they need to decide if they are willing to count on Social Security.

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## Taxes on Retirement Income

When planning your retirement there is more to maximizing your income than just having the "highest" rate of return. More than likely, the biggest factor that will affect your income is (everyone's favorite thing!) TAXES! Imagine that, the number one income killer throughout your life is the same one in retirement. There are a number of different tax situations your money can be in and they will determine how 'all' of your income is taxed in retirement... **How much of your money you will get to spend!**

The first kind of income that you will probably have in retirement is 'Tax-Deferred.' This is money you save throughout your life in a 401k, IRA, 403b, etc... (With Restrictions) The money is put in before being taxed and you defer all of the taxes until retirement. By putting off paying the taxes until later, hopefully you will build a larger nest egg. Unfortunately, as you pull money out for income, you will have to pay taxes on ALL of the income.

The next kind of income is 'Interest Gained.' This is money that is gaining interest, and is taxed each year. This money could be in CD's or savings accounts. The taxes are paid "as earned." Each year, you pay taxes on the interest gained in that year. Another, vehicle in this category is non-qualified annuities. You earn interest each year. However, you only pay taxes on the interest as you take it out.

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## Interesting Facts:

-Tea is said to have been discovered in 2737 BC by a Chinese emperor when some tea leaves accidentally blew into a pot of boiling water.

-Depending on how you define "match," the cigarette lighter was invented before it.

- The wick of a trick candle has small amounts of magnesium in them. When someone tries to blow out the flame, the magnesium inside the wick continues to burn and, in just a split second (or two or three), relights the wick

-"Rhythms" is the longest English word without a vowel.

## Tired Of Losing Money?

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"Accept the challenges so that you can feel the exhilaration of victory."

-George S. Patton

### **Auld Lang Syne**

You may not recognize the name, but nearly every American knows the song, or at least the tune of Auld Lang Syne.

"Should old acquaintance be forgot,  
and never brought to mind?  
Should old acquaintance be forgot,  
and old lang syne? ..."

However, there is more to the song than just the one verse and chorus. The song originates from a Scots poem written by Robert Burns in 1788. It is important to note, that Robert collected the poem and wrote it down, he did not fully compose it, although it is believed he composed the latter half.

Auld Lang Syne, translates to "old, long, since," or more idiomatically "old times." The song is sung as a tribute to "old times."

Source:  
[https://en.wikipedia.org/wiki/Auld\\_Lang\\_Syne](https://en.wikipedia.org/wiki/Auld_Lang_Syne)

### **Are You on the Right Track?**

Jim & Kairi are both skeptical about it, and said it would be nice to have, but they don't feel comfortable relying on it. So they need to come up with the \$90,000 on their own. So how much money will they need to generate that \$90,000 every year? If they had a lump sum of money, what percentage growth could they get on that money consistently and reliably? They realize today's interest rates are low, but they figure they can still count on getting 4%, which is about average for a reliable number. Now in order to figure out how much money they need to have, they should divide that 4% into \$90,000. ( $\$90,000 / .04 = \$2,250,000$ ). They need a retirement account value of \$2,250,000 in order to guarantee they never run out of money.

It is important to remember this is not a true calculation. There are many other facts that come into play. The main two we didn't discuss are income taxes, and inflation. Please note, that if you are not quite on track don't be discouraged! Something is always better than nothing! For a full check-up on your situation, call my office today. Remember, there is never any obligation and all initial consultations are free.

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### **Taxes on Retirement Income**

Another type of income is 'Tax Free Income.' This comes from putting your money in 'Tax Free' bonds. You put your money away after income taxes and you generally don't pay taxes on the income.

The common problem, with each of the incomes mentioned above, is that ALL of these incomes count against you in determining the taxation of your social security income. If you are filing an individual tax return and have over \$25,000 of income, up to 50% of your social security income will be taxed. Over \$34,000, 85% is taxed. (Married filing joint... \$32,000 and \$44,000)

One of the better incomes is what I call, 'Never Taxed Income.' This income can be obtained by using a Roth IRA. Note: This can be in any investment vehicle, (Stocks, CD's, Annuities etc...) This is money you put away after taxes. (With Restrictions) The money grows tax deferred, but when you pull it out it is still not taxed. 'Never Taxed Income' does not count against you for taxation of your social security income.

The last and best kind of income is 'Legally Unreported Income.' It has the best of all worlds. It is similar to 'Never Taxed Income,' in that you don't pay taxes on the income and it doesn't count in determining how much of your social security income will be taxed. However, it has several distinct advantages over all the other retirement income options, as defined in the little known IRS Code 7702.

To find out more about maximizing your spendable retirement income, call my office today!