It's Tax Time... Are you focused on paying less today or more tomorrow?

By Brad Creger – President & CEO, Financial, Inc.

With April 15th fast approaching many will be scrambling to fully fund their IRA or qualified retirement accounts before filing their tax returns. But is this a good idea?

In my experience too many financial advisors or CPAs will automatically repeat what they have been mindlessly repeating since they got "in the business" many years ago. Namely, that you should ALWAYS fund your retirement accounts up to the tax-deductible limits each year. But I ask again… is this a good idea?

If you examine WHY this advice is given you will find that it is assumed that you are deferring taxes at a higher tax rate (now) to be able to pay taxes in a lower tax bracket (later) after you have retired. However, almost every tax and financial professional believes that personal income tax rates will be going up. If this is the case… then why are YOU still blindly funding your pre-tax retirement accounts? Hasn't someone done the "tax math" for you?

If you work for a company that provides matching contributions then you should fund your pre-tax retirement plan to capture the "free money" being offered.

If you get a dollar for every dollar contributed, this is the equivalent of doubling your money without investment risk. But what should you do if you own the company or your company doesn't offer matching contributions?

Maybe a Roth IRA or Roth 401k? You pay income taxes now, it's tax-deferred and then you receive tax-free income during retirement. Although a Roth 401k allows you to save more and eliminates the income restrictions, this probably still isn't enough for higher wage earners. Remember you are primarily looking for "tax-diversification" when funding a Roth in order to avoid having all your eggs in one tax-basket.

Is there any other option to save for retirement that will provide you with a tax-free income? Interestingly… the answer is Yes. But too many quickly dismiss the second tax-free option without fully understanding it. Before I tell you what it is let's first discuss how it works.

Would you be interested in market-based returns with zero risk to your principal? In other words, when the markets are going up so does your account balance. When the markets are losing money, the worst result your account can suffer is a zero. In other words, you can't lose money due to market losses. And just like the Roth you pay the taxes up-front on contributions, your money grows tax-deferred and your income is tax-free; but there aren't any income restrictions or annual funding limitations.

You might be thinking that this sounds pretty good and you're wondering why you've never heard of this option before. What am I describing? Believe it or not… it's life insurance. But not just any life insurance, I am referring to Equity Index Universal Life or EIUL.

The financial markets aren't expected to be any less volatile in the future and with taxes expected to be going up, I don't know of anyone who shouldn't at least explore (with their financial advisor or CPA) the potential benefits and advantages of using a Roth and/or EIUL in a well "tax-diversified" retirement plan.

This is just my opinion, but it's your money. What you do with both is entirely up to you!

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