

In This Issue

Tax Reforms: Which of the five main proposed tax reforms make sense to you?

Preparing for Your Retirement Years: Five key questions to ask yourself when preparing for retirement.



Quote of the Month

"Always bear in mind that your own resolution to succeed is more important than any other."

-Abraham Lincoln

Tax Reform at a Glance

Nearly everyone agrees that the current tax system in the United States is ailing. It's huge, it's complex, and it's full of addendums and loopholes. In fact, almost 4,500 changes have been made to the tax code in the past ten years alone. The problem is that we are nowhere close to a consensus as to the cure. Here's a breakdown of five potential tax reforms recently introduced by lawmakers and politicians. Which of these make sense to you?

1. The 9-9-9 Plan

Herman Cain, the Republican presidential hopeful, has gained a lot of publicity and generated a great deal of discussion about tax reform with his 9-9-9 plan. His goal would be to drastically simplify the tax code by imposing a 9% flat tax on individuals, a 9% corporate tax and a 9% national sales tax.

2. The Flat Tax

Flat tax proposals have gained political traction over the years. Right now, a 17-19% flat tax rate on income, including wages and retirement plan distributions, is being discussed. Social security, interest, and capital gains would be exempt. After a large standard deduction (\$30,320 for couples and \$19,350 for singles), everyone, including businesses and corporations, would be taxed at a single low rate.

3. The Fair Tax

The fair tax is a plan for a national sales tax backed by some members of the tea party and other Republicans. Under this plan, payroll taxes, estate taxes, and individual income taxes would be erased. Instead, a tax of 23% of the item's total price including tax (so roughly 29.9%) would be collected on retail goods and services at the register.

4. Adding a National Sales Tax

This reform is supported by the Debt Reduction Task Force of the Bipartisan Policy Center. After modifying the current income tax schedule, a supplemental 6.5% national sales tax would be divided among suppliers, businesses, and consumers in order to reduce the national deficit.

5. Changing the Mix

For advocates of reform who want to keep our current income-based system, changing the way the tax code is written is key. The National Commission on Fiscal Responsibility and Reform proposes collapsing the current six tax brackets down to three (12%, 22%, and 28%) and eliminating all itemized deductions and most other tax expenditures.

Any time the tax code is changed there are going to be winners and losers. Some will come out ahead under the new plan, and others will fare worse. Some of the possible reforms proposed above are long shots that have gained popular appeal for various reasons. The actual changes to be implemented are likely to retain some of the characteristics and complexity of the old code. Whatever the outcome, with tax reform hearings going on in both chambers of Congress, you can bet there will be important changes in store over the next two years.



How Does Your Retirement Plan Stack Up?

People love to compete, and it can be hard to resist comparing ourselves to our peers. When it comes to how your retirement plan measures up, however, it is important to get away from comparisons to other people or even measuring against a set dollar amount or standard (for example, the \$1 million portfolio). Instead, to discover if your plan for retirement really is feasible, you should ask a few questions just of yourself to find out if the proposed course of action is best for you specifically. After answering these questions, you'll have a better idea of how well you're really doing.

What is your financial-capital-to-living-expenses ratio?

The salary you're bringing home now and the amount you've set aside are both important figures, but the most important measure may be the ratio between the two. Different financial planners look at different factors, but you probably want to see at least ten to fifteen times your salary in your nest egg at retirement.

Could you maintain your lifestyle by withdrawing 2% a year?

The 4% "safe" withdrawal rate, or what you can cash out of your retirement accounts each year without fear of running out of money, has come into some debate and dispute recently. It would be worthwhile to plug in the numbers to see if you could live comfortably on a smaller percentage than the one you would get in ideal circumstances. It's always easier to make adjustments now than it is to be forced to downsize later. Another thing you might look at is how flexible you can be in terms of withdrawal in bleak markets, especially those close to the time you retire.

Can you still work? Do you want to?

It seems like a lesson in contradictions, but retirement for many Americans involves working in some capacity. Some people enjoy consulting with their old firms while working far fewer hours. Others turn to a second career that pays less money but is more rewarding. Work that you truly enjoy, especially if it isn't of the nine-to-five variety, may be a way to bolster income and to live out your retirement dreams.

What will your day-to-day life look like in your 60's, 70's, and 80's?

This question is related in many ways to the previous one. If you understand your goals, it will be easier for you to work toward them. Knowing where you want to live and what you want to do can help you to tailor your retirement plan to your specific needs and desires. Boredom can quickly become expensive, as people pick up expensive hobbies to fill tracts of time.

Do you understand Social Security, Medicare, and employee benefits?

All too many Americans retire without a thorough understanding of Social Security, Medicare and their employee benefit package. It is important that you know what these sources of retirement income and benefits will generate for you, and that you understand what they will not cover, such as dentistry and long-term care, or gaps in health care coverage if you retire prior to becoming eligible for Medicare.

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Q&A

Should you have any questions concerning anything in this month's installment or to learn about upcoming events please contact our office.