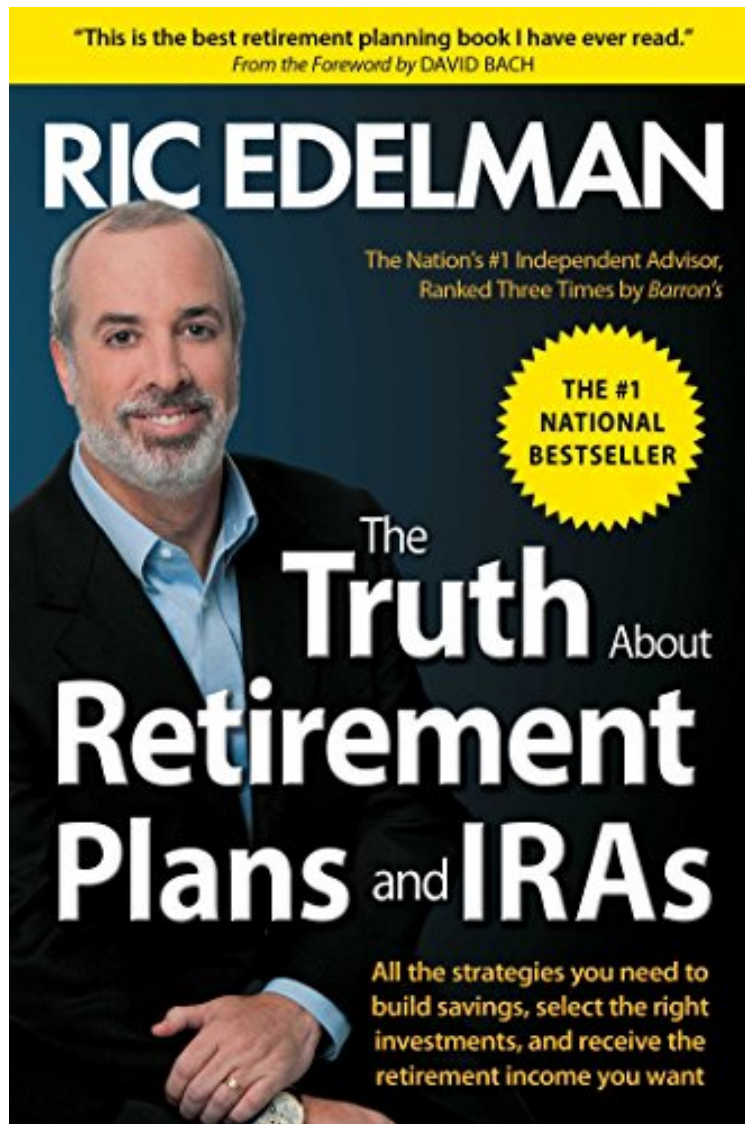


(Free download) The Truth About Retirement Plans and IRAs

## The Truth About Retirement Plans and IRAs

*Ric Edelman*

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**Ric Edelman : The Truth About Retirement Plans and IRAs** before purchasing it in order to gage whether or not it would be worth my time, and all praised The Truth About Retirement Plans and IRAs:

1 of 1 people found the following review helpful. I loved this book and actually ordered a second one for ...By William B.I loved this book and actually ordered a second one for my daughter who is no where near retirement. In fact, she is a college sophomore. But the examples about the power of compound interest and such illustrate the point about starting to invest early. Ric's advice about not to invest into a nondeductible IRA is understood but I think an alternative would be to invest into a nondeductible IRA (if that is the only account you qualify for) and to cash out at the earliest possible time (without penalties), pay taxes on the gain (total amount minus cost basis) and move proceeds

to a taxable amount.<sup>5</sup> of 5 people found the following review helpful. Very Good Book Covering The Details About Preparing For Retirement By DonI just finished reading this and was very pleased with it. The book explains things in laymen terms that are easy for us non full time investors to understand. I am looking forward to ordering more of Ric's books to learn about money and investing.<sup>1</sup> of 1 people found the following review helpful. Ric does an excellent job providing detail By David Hahn Ric does an excellent job providing detail, going over real life examples. This book is an excellent resource for teenagers planning for retirement all the way up to retired couples looking for guidance, although one would hope that they had already started saving beforehand. Edelman should convert this book into a school course because it provides the sorely needed and lifelong applicable information that is lacking in our society. I'm ready for the next book.

From one of America's most trusted financial advisors: a guide to making the most of your retirement plans and assuring long-term financial security. Everyone knows that investing in your retirement is important. Yet only half of all eligible Americans contribute to a retirement plan. That's because 401(k)s, 403(b)s, 457s, and IRA plans are complicated, confusing, and costly. New York Times bestselling author and acclaimed financial advisor Ric Edelman has counseled thousands of savers and retirees, and has accumulated his advice in this book. Edelman has created a step-by-step guide. With illuminating examples and simple explanations, he shares everything you need to know as a plan participant: how much you need to retire comfortably, how to make wise choices among your investment options, and how to maximize the benefits of your 401(k). Along the way, he debunks the myths and clears up the confusion.

rdquo; Earns high marks for clarity, simplicity, and its focus on educating and encouraging readers to be the masters of their retirement fates. What is commonly viewed as daunting subject matter is rendered much more accessible and digestible with the aid of a sage and talented writer. This book deserves the wide following it is sure to receive. rdquo; (Estate Planning) About the Author Ric Edelman, one of the nation's best-known and most successful financial advisors, is a New York Times bestselling author with a weekly PBS television show and WABC radio program, as well as a nationally syndicated column. He serves as the resident financial expert for The Dr. Oz Show and is a regular contributor to Financial Advisor and Inc.com. Barron's has ranked him the rdquo; #1 Independent Financial Advisor rdquo; in the nation on three separate occasions. His firm, Edelman Financial Services LLC, handles nearly sixteen billion dollars in assets for Americans across the country, winning over 100 awards from business, advisory, communication, and community service sectors in the process. He lives in Alexandria, Virginia. You can visit him at RicEdelman.com. Excerpt. copy; Reprinted by permission. All rights reserved. The Truth About Retirement Plans and IRAs Chapter 1 How Retirement Plans Came to Be In the beginning, there was no such thing as retirement: If you were alive, you worked. Children gathered, adults hunted. The old and the sick, unable to work and feed themselves, died. Soon, nation-states formed, and people organized to defend themselves from invaders.<sup>1</sup> But how do you convince people to fight when there is a high likelihood they will die doing so? One way is to bribe them. The First Pension in America During the American Revolution, the Continental Congress offered soldiers a monthly lifetime income as an incentive to join General Washington's army. The income they'd receive following the war (assuming they survived the ordeal) would be a reward for their service. This lifetime income was called a pension. The colonists didn't invent the idea; it had been used by Romans 2,000 years ago. But the idea was new to Americans: For the first time, you could work for (just) a finite number of years instead of your entire life, after which you'd continue to receive income as though you were still employed. As far as Americans were concerned, it was (pardon the pun) a revolutionary idea. The federal government repeated the offer during the Civil War and has done so ever since. Pension benefits are still being paid for service in the Civil War. Although the last soldier to fight in that conflict died in 1958, his child (now 94 years old) is still receiving a monthly check from the federal government, according to the Department of Veterans Affairs. Ditto for 58 children of veterans of the Spanish-American War (fought in 1898), 2,192 children of World War I veterans and 10,733 kids of WWII vets. The first private company to offer a pension plan was American Express, which in 1875 gave an income to each retired employee. The amount was equal to half of the worker's annual pay, based on an average of the worker's final 10 years of employment (up to \$500 annually). Over the next 50 years, hundreds of other companies created similar plans. Pensions came to be known as defined benefit plans because the future benefit you are to receive is defined.<sup>2</sup> What was undefined was how much it would cost the employer to provide this benefit. Workers came to love pension plans. They paid nothing for them and had to stay with their employer only long enough to qualify (called vesting) — typically 20 to 40 years. Employers loved the plans too because they helped ensure that productive workers would stay for an entire career. The higher productivity and lower turnover helped the employer save money. A Retirement Plan for the Public Then came the Great Depression. Tens of millions of people were out of work, which created fierce competition for jobs. The nation's economy was agricultural and industrial — both very physically demanding — placing older Americans at a distinct disadvantage. So when these folks lost their jobs, they were unlikely to find new ones. They thus found themselves permanently — albeit involuntarily — retired. To provide them with income during their retirement years, President Franklin D. Roosevelt introduced the Social Security Act of 1935 — the first

public retirement plan. Similar to the private plan created by American Express, Social Security was to pay monthly benefits based on each worker's length of service and average annual wages. The first person to receive a Social Security check was Mary Fuller. Starting in 1940, she received \$22.54 monthly and she kept receiving money from Social Security until she died in 1975 at age 100. Did I say Social Security was similar to the American Express plan? Actually, there's a big difference: AmEx paid for the benefit it gave its employees, while you pay taxes to support Social Security. Today, in fact, more Americans pay more in Social Security taxes than they do in federal income taxes. And Social Security taxes keep rising. But that's a different book. In 2013, nearly 57 million Americans were receiving Social Security benefits, averaging \$1,150 monthly. The maximum monthly retirement income was \$3,350 as of December 2013, and you must be at least 70 years old to receive it. The benefit is based on your 35 highest-earning years. Smoke-and-mirrors alert! The benefit used to be based on your 10 highest-earning years. But the federal government changed the formula to reference 35 years of work. Although earnings are indexed to inflation, workers nevertheless earn a lot less at the start of a career than they do at retirement. So including those early lower-income years in the calculation reduces the amount you receive. It's a tricky way for the government to reduce Social Security benefits, and I bet you didn't notice that they changed the formula. How the World's Largest Automobile Manufacturer Changed Retirement Plans Forever The Studebaker family of South Bend, Indiana, started making wagons for farmers, miners and the military in 1852. Ten years after the first gasoline-powered car was tested in the United States, the Studebakers began manufacturing automobiles and became, at one point, the world's biggest carmaker. But by the 1960s the company was having financial difficulties, and the last Studebaker car rolled off the assembly line on March 16, 1966. NON SEQUITUR WILEY NON SEQUITUR copy; 2012 Wiley Ink, Inc.. Dist. By Universal Uclick. Reprinted with permission. All rights reserved. One of Studebaker's problems was that its pension plan had so little money in it that the company couldn't afford to pay all its retirees the pensions they had been promised. So when the company went broke, the pensions ended as well, leaving thousands of employees and retirees with no pension or only a fraction of the amount they had been promised. Remember when I said that workers loved pensions because they paid nothing for them? Well, now you're beginning to realize how this hands-off approach came back to haunt them. By leaving all the details to their employers and merely assuming everything would be fine, millions of pensioners found themselves with no pension at retirement and no savings, since they thought they didn't need to save. Big mistake. You can avoid this mistake easily: Don't believe that the promise of a pension alleviates you of the need to save for retirement. Studebaker's collapse, along with similar events at other companies, caused Congress to create the Employee Retirement Income Security Act, signed into law by President Gerald Ford in 1974. ERISA governs how pension plans operate, to help ensure that promises made to employees are honored by their employers. ERISA also created PBGC, the Pension Benefit Guaranty Corporation. Similar to the FDIC (Federal Deposit Insurance Corporation) for banks, PBGC restores some (not all) of the pension income that workers lose when a company goes out of business. 1. That is without question the fastest history lesson ever. From Cro-Magnon days to modern society in just three and a half sentences. Beat that, Tolstoy. 2. Duh.