

The Big Retirement Lie

Tax rates are a big deal for retirement plans.

By [Rob Russell](#) July 19, 2012

What if everything you were told about saving in your company retirement plan was bogus? What if the benefit of tax-deferred growth in your mutual fund based retirement plan was really a well-funded Wall Street marketing gimmick?

For decades now, you and I have been told to sock away our hard-earned money into 401(k)s, IRAs, 403(b)s, TSPs, etc. to reap the benefits of tax deferral and to just trust the system. Advisors, tax preparers, and CPAs jumped onto this Wall Street bandwagon of letting your money grow tax-deferred until you retire. The crux of their seemingly logical-sounding argument was that you'd be in a lower tax bracket in retirement, thus kicking the "tax can" down the road.

Were they right? Would paying the tax later in retirement be better? Or, was it just a big marketing gimmick for you to buy into the mutual funds peddled by Wall Street?

Would you agree the answer depends on future tax rates? Future tax rates are almost as unpredictable as future market prices. I think, however, an argument can be made that future tax rates will eventually be higher than today's historically low tax rates simply because they have to be (thanks to the national debt, deficits, Social Security and Medicare imbalances, etc.)



Consider today's retiree or soon-to-be retiree. A middle-class married couple making \$65,000 per year is currently in the 15 percent bracket. If this couple is currently contributing to their 401(k), in essence they are deferring the payment of taxes at a 15 percent rate. In only five short months (under current law) they will be in a 28 percent bracket, almost double their current rate. If they plan to retire in 2013 and intend to live off of Social Security, a pension, or investment income they will actually be in a higher tax bracket. Given this example, did kicking the "tax can" down the road actually work for them or will they actually be subjected to higher taxes during their retirement?

This big retirement lie could be harmful to retirees and soon-to-be retirees because they will live on less since they will be paying the government more.

"America's IRA Expert" Ed Slott, CPA answers your questions during this quick and informative video on [how to protect your retirement income by using the IRS rule book.](#)