Book Review: The Retirement Savings Time Bomb…and How to Defuse It

By Ed Slott Published by Viking (Penguin Group) $24.95   Reviewed by Bruce E. Brinkman, CFP®

Ed Slott likens retirement planning to a golf tournament, building assets is like the front nine holes and only part of the game. His book*, The Retirement Savings Time Bomb…and How to Defuse It,* explains how to protect your assets from excessive taxation when they are withdrawn because the "Back 9" is where the game is often won or lost.

Slott is a nationally known CPA who specializes in the arcane tax code that regulates Individual Retirement Accounts (IRA). His book attempts to demystify the rules by outlining a "Five Step Plan" for protecting retirement plans from "near annihilation by the Taxman." He does this first by scaring the reader with real-life examples of IRAs that were completely lost to taxes. Once he has our attention, he goes on to describe strategies for minimizing the tax burden.

The distribution rules for IRAs did not seem that important when they were first issued by the IRS in 1987. As Slott explains, most workers were still dependent upon their company's pension plans at that time. Few had sizeable amounts of money in any outside retirement accounts. Today, most company retirement money will someday be rolled over into self-directed IRAs. Knowing the basic rules of distribution will ultimately determine how much is actually received after taxes are paid.

The book begins with a glossary of important tax terms and definitions. Some of the terms are part of every investor's vocabulary: capital gains versus ordinary income, for example. But other terms may leave the ordinary taxpayer scratching her head wondering what subject is being discussed: Conversion versus recharacterization is one example of IRS-speak that is explained.

Step One in Slott's plan is "Time It Smartly" and refers to the careful planning of withdrawals and the naming of beneficiaries. The "day of reckoning" for IRA distributions is called the required beginning date (RBD) which is April 1 following the year the participant turns 70 ½. Slott does a good job explaining the legal means of tapping the IRA earlier and how to avoid costly mistakes when distributions begin.

Various strategies for using insurance to offset the income and estate taxes generated from large IRAs is the theme of Step Two. The average American taxpayer would find this information interesting but not applicable because of the large estate tax exemption currently available. ($1,000,000 in 2003)

In Step Three, Slott explains how an IRA can be legally "stretched" by beneficiaries so that the account keeps growing tax-deferred for as along as possible. Naming your primary and contingent beneficiaries correctly is the key to this concept.

The advantages of the Roth IRA are laid out in Step Four. Converting the traditional IRA into a Roth is a strategy many should consider as a way to avoid paying taxes on any future growth in the IRA.

Simple estate planning can avoid the "death tax trap" which is the last step. If nothing else, Slott's book is a reminder of how a little proactive planning can lead to large savings when the money is needed the most.

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