Coram Deo
FINANCIAL

Case Study | Are you maxing out your 401k?

Jordan and Sophia

Problem

Jordan and Sophia are 37 and 31. They married a little later in life and are super excited to "knock it down" over the next 25 years in order to retire at 62 and 56. Both have been maxing out their 401ks and Jordan wants to invest heavily in real estate to provide passive income for their retirement years. They were told by a financial advisor they would need $2.2 million in their nest egg to comfortably retire.

Consequences

Jordan and Sophia are set up to pay taxes the rest of their lives. Their 401k money will be taxed as ordinary income at the tax rate in effect the year they report the income. Their passive income will also be taxed as ordinary income. If they sell any properties, the appreciation will be taxed at capital gains rates; the depreciation recapture will be taxed at ordinary income rates.

Solution

Jordan and Sophia were thrilled to learn that where their money sits is more important than what it earns, and how much they have to spend is more important than how much money they have. We helped them discover a way to re-direct their retirement contributions into a life-time tax-exempt account. We also showed them a strategy where they can still invest in real estate during their accumulation years; however, by the time they retire, instead of showing passive income on their 1040 and paying taxes on that income, it will all be cash flow and they will pay no taxes. They feel so much better knowing they won't have the headaches that come with owning real estate during their retirement years.