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# Duvall & Associates, Inc.

## Business Advisor Newsletter

"I THINK I'M FALLING  
I'M HOLDING ON TO ALL I THINK IS SAFE"  
Creed

In these financially rugged times, it's easy to lose perspective when desperately grasping for economic relief.

And so we are witnessing a stampede of strapped individuals pirating personal treasure troves of retirement plans to supplement (perceived) temporary budgetary needs.

Bad move. For most Americans, pensions remain the sole budgetary source of investment liquidity in their debt-ridden personal financial statements.

Retirement funds are particularly valuable in troubled times since they are generally safe from creditors. Thus even in the event of total bankruptcy, most individuals can at least stumble away with the value of their pension funds intact for future needs - an invaluable fortress against financial Armageddon.

Of course, the other elephantine issue with prematurely tapping pension funds rests with the income tax consequences of the withdrawals. Not only are such withdrawals fully income taxed, but they are also subject to additional 10% penalties if the owner is less than 59½.

**EXAMPLE** - Jill (age 50) earns mucho bucks but she needs \$50,000 for a short-term financial fix. Since she resides in a 40% marginal tax bracket - and her withdrawal is subject to a 10% penalty - she will have to extract \$100,000 from her retirement fund to generate her desired \$50,000 cash after (50%) taxes.

Note - Jill has also trashed the advantage of receiving those same pension funds at much lower retirement age tax

brackets in future years.

As a budgetary alternative for business owners - eliminate personal current year pension contributions. In fact, owners can elect to forego contributions on their own behalf, even if they must honor retirement obligations for employees.

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