

Recoup Money Spent on All Automobiles

I believe that most of us have made a serious mistake in the way we have paid for our automobiles. No matter how we have paid for them, they depreciated over time. For example, today, at age 69, all I have to show for all of my car purchases, is a five-year old car. Sometimes I paid cash (lost the ability to earn from my money) and sometimes I financed (used someone else's money), but I do know this; I will never be able to recoup what I spent for all of those cars.

I have a simple way for our children to prevent this. I have made sure my son Danny has implemented this plan, as I have, for all my future cars. You can do it too, but depending on your age, you may not be able to recoup all of your dollars, but your children can because they have more time on their side. I am sure you want your children to have the opportunity to recoup all of the money they will spend on their cars.

The strategy is called '**becoming your own banker**'. To make it simple for them (and you), just watch the short 12 minute video on our website (www.americancollegefunding.net/byob.htm). You can also read the white paper I wrote to further help with the understanding. Below is an example of what I am talking about.

Example: If your child bought a car every 5 years costing \$25,000 (starting at age 28 through age 74) they would have spent \$225,000 (9 x \$25K). If financed at 7%, they would have paid \$500 each and every month for those cars, and at age 74, all they would have left was a five year old car. They would have spent \$225,000 plus \$42,000 in interest for a total of \$267,000 – GONE forever. *Note: To keep it simple I am not counting down payments and trade-in values and am keeping the price the same for all years.*

If they contributed the same \$500 each and every month, starting at age 22, and spent 6 years building up their bank (a bank must be capitalized), then purchased these same 9 cars by borrowing the \$25,000 every five years from their own bank, this bank, at age 74, would have accumulated just over \$233,900 in cash value. That is a difference of **\$500,000** (\$267K SPENT + \$233K in Cash Value). This 'saved' amount doesn't depend on what the market does in that same time period.

Traditional financial planning tells them to put this money into a 401(k) or IRA. Why? So that they can save taxes. But do they really save taxes? No, these qualified plans merely 'postpone' the tax burden to a future date. Yes, they get a tax deduction today, when their taxes are low, but eventually they will pay taxes on, not only their contributions, but on the entire amount. The financial community intimates that they will be taxed at a lower rate when they retire, but will this happen? Every person I have asked about whether taxes will be going up or down in

the future always answers UP. With what is going on in our economy, there is no question that taxes are going to be higher in the future.

What about access to the money. Money in these qualified plans is not accessible until age 59 ½, that is 37 years into the future. You can't borrow from an IRA. I believe that this lack of liquidity can be devastating to a sound financial plan. The money in your 'bank' is completely liquid and can be used to accumulate all of the interest that you would have paid to some other bank. Over forty years this can add to be quite a sum of money, as I illustrated earlier in this document. If every child put the first \$200 to \$500 a month into this type of bank, instead of their qualified plan (401(k) or IRA), they will be able to recoup the cost of every car they purchased. I am not suggesting that they not contribute to a 401(k) or IRA; I am just suggesting that they set up their 'bank' first. After the bank has been established, then they can start investing in their qualified plans. Investing is risky and normally should be done from assets not income. Saving means having more tomorrow than today, with little, or no risk.

If we want our children to have a chance to succeed financially, in what is certainly going to be very difficult and trying times, they need to understand and implement this simple strategy.

PS: I picked \$500 a month and \$25,000 for the car, at random, but both amounts and frequency could be different. The first \$200 to \$500 a month should be 'saved' in this manner, not risked (invested) in a 401k or IRA. The \$233K in cash value is available to them TAX-FREE.