



Consider This Program

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On This Show:

Big Joe Clark, CFP® : Managing Partner and Lead Advisor of Financial Enhancement Group

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Show Notes:

Topics include:

- Question & Answers
- Pension
- Men & Women

CONVERSATION 1

Question 1:

"I understand that a Roth IRA fund is not tax-exempt, what I don't understand is how this differs from a regular tax investment?"

*It's tax *DEFERRED* not tax-exempt

Answer: When you buy something outside of a Roth IRA, you have "basis" in it. You've already paid taxes on it so you only have to pay taxes on the interest or the growth when you sell it.

**We prefer tax diversification*

Question 2:

"My father passed away October 2018. He & my mother owned a second home with approximately \$250,000 in equity. She had a realtor evaluate & write a formal letter within a few weeks of him passing, which stated the approximate market value of the home on the date of his death in order to get a step up in basis. Do I need a formal appraisal? Who do I file the letter of appraisal with to ensure I can avoid most capital gains on property tax? Can I do this on my primary residence as well?"



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Answer: If she keeps the house and expects it to highly appreciate, she would want an appraisal to have her basis on file. She does not need to do it on her own home. She should keep the document.

Question 3:

"My question is on behalf of my sister, she took a medical retirement in 2013 and was eligible for a PERF (State of Indiana's Retirement Plan). She took a lump sum & paid the 20% off the top of her taxes. She receives \$400 monthly, but she didn't realize that she would pay taxes on this yearly because she never received a statement like a W-2. She was only aware of this recently when she went to BMV to file for a lost title. The state said that they would hold her title until these taxes were paid. Can she arrange for payments?"

**If you take money directly out of a retirement plan, the federal government mandates that the dept of labor plan withhold 20% for taxes. (If she wasn't in the 20% bracket, she got a refund. If she was under the 20% bracket, she owed more money.)*

Answer: Yes, that income is fully taxable. You will have to pay those taxes. There should have been a form that was sent, not a W-2, but one stating your benefits. There will be a penalty for not paying & unfortunately the state of Indiana is harder to deal with in this case than the Federal government, but it's not hard to get caught up.

Question 4:

I am 64 years old and I would like to think about retiring, but I have some high interest payments. Would it be beneficial to get a distribution from my 401(k) from my employer and pay those off and have less cash going out each paycheck?

Answer: You have to assume what you're future tax rate will be. Your tax bracket could be substantially lower in retirement than it is today. If you take the money out your 401(k) to pay off that debt, you have to deal with the full taxation of it. If you're in the 20% bracket, then let them withhold the 20%, but if you transfer that money to an IRA and then take that money out of the IRA then there is no 20% mandatory withholding and you can determine what needs to be held by the IRS. If you're dealing with credit cards at 15-20%, move it to an IRA, use the money that you would have paid in taxes to eliminate debts at 20%. Then, at the end of the year, figure out what to do about taxes. It all depends on how long you are going to work and how high the interest rates are.

CONVERSATION 2

Question 5:

I'm saving for my kids college. Which is better for me to do? Should I actually put money in college savings or pay down debt?



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Answer: 529 is a Federal Code. The Indiana College Choice: If you put in up to \$5,000, you get up to a 20% tax credit. It doesn't matter what income level you are. It's the difference between a coupon and a deduction. This is a state tax credit. OPPORTUNITY COST: What's the interest on the debt? What's your annual return on the savings account? If you put money in College Choice, you have to list it as an asset on the FAFSA. If it's in their name, it's the same. It doesn't go on the FAFSA if it's in the grandparents name. If you're in a challenging position - paying down debt, frees up some of your income and has no consequence on FAFSA; putting money in savings, you're reducing the amount of money your child may be eligible for and you still have the debt when they go to college.

CONVERSATION 3

- What is a pension?
 - An amount of money you receive in addition to your salary. It comes from the company, separate from their other assets.
- The pension fund manager goes to the board of directors and states the returns for the year. Then, the actuary says, based on the life expectancy of those working for the company, what the rates needed to be for that year.
 - In 1989, GM had the strongest pension fund in the country. The next year, the fund was \$3 billion short. What happened?
 - The average retiree was living longer, so there needed to be more money in the pension.
 - If not, they'd underfunded and would have to pay an insurance premium through the PBGC.
 - They did, & now retirees receive their pension from the PBGC.
- Defined Benefit Plans transitioned to Defined Contribution Plans
 - Accumulation is easy, distribution is hard.
 - That's where the Financial Enhancement Group comes in.

CONVERSATION 4

- It is true that women have longer life expectancy than men.
 - When planning your financial future, we take the joint life expectancy and add five years.
- Income & Equality
 - Studies say women make less than men.
 - This affects retirement:



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- When you retire, your goal is to replace 100% standard of living, not level of income. If you made less money, you have less money to replace your standard of living in retirement.
- Knowledge base
 - Gender neutral: Some understand investing and some understand tax.
 - Typically one spouse understands more than the other.
 - From our experience, males typically do the long-term while the females for the short-term and usually they are not co-mingled.
- Desire & Interest
 - What you don't know, you don't know.
 - There are things that urgent, and there are things that are important.
 - People don't typically come to the Financial Enhancement Group until the urgent has now become important.
 - Gender neutral: People don't often have the desire or interest.

WRAP-UP

- Roth IRA & 401(k)
- Inheriting Assets: Step up in basis
- College Debt & Savings
- Distribution: Pension Funds
- Differences in Gender & Investing

Disclaimer: Joseph Clark is a Certified Financial Planner™ and the Managing Partner of Financial Enhancement Group, LLC an SEC Registered Investment Advisor. He is the host of "Consider This" found on WIBC Saturday mornings from 6-7a.m. as well as three other Indiana-based radio stations. Joe has served as an Adjunct Assistant Professor at Purdue University where he taught the capstone course for a degree in Financial Counseling and Planning.

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