

## CONSIDER THIS PROGRAM

EPISODE DATE:

**January 4, 2020 Episode**

ON THIS SHOW:

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

**Angi Kinser**: Event Coordinator at Financial Enhancement Group

**Andrew Thrasher**, CMT: Portfolio Manager at Financial Enhancement Group

**Dean Huddleston**: Financial Advisor at Financial Enhancement Group

**Grant Soliven, AIF®**: Financial Advisor at Financial Enhancement Group

### SHOW NOTES:

#### Topics Include:

- Secure Act
- Secure Planning Act
- Roth, Solo, and Sep IRAs

#### The SECURE Act

Have you ever wondered what a SECURE Act really means? It's hard enough to understand Required Minimum Distributions. One of my favorite things, the biggest no-brainer in the tax code is Qualified Charitable Distributions.

If you're over 70 and a half, have IRA money and you're charitably inclined, and did not use a QCD, you do not have a very good planner. There's excess money that is being paid in taxes every year. So there's parts of the QCD that we don't know.

What is a traditional IRA? Traditional means that you are able to put money in based on income that you had this year. If you had earned income and had, you're able to put it into an IRA if you qualify.



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There's a couple of qualifications:

- If you don't have the availability of a retirement plan at work, then you have the ability to put into an IRA.
- If your spouse has a plan at work, you have the ability to put into a traditional IRA as long as your joint income is not too high.
- Under the old rule, once you reached the age of 70 and a half, even if you had earned income, you were no longer allowed to contribute to a traditional IRA, which is deductible or an IRA, that is not deductible.

What you need to understand from the change is if you have earned income, you can contribute to an IRA. It doesn't affect required minimum distributions, but what this new law does is eliminates what's called the stretch provision. Under the current code, if I die before 70 and a half, my wife and daughters get to take money out of my retirement accounts based on their life expectancy for their whole lives. If I was over 70 and a half when I died, they have to take it out over my life expectancy. How can I have a life expectancy? It's based on a large group of people, not you individually. There is no lifetime stretch. It's a 10 year period. At the end of 10 years, everything you have in your IRA has to be taxed. This dramatically changes some of the tax strategies that are necessary for people as they look forward to how to protect that.

### 529 Plans with Andrew Thrasher

You can gift \$15,000 a year to anybody you want with no strings attached (meaning you don't pay taxes and they don't pay taxes). However, you can't tell them what they have to do with the money and it doesn't have to be family.

Can a child inherit an IRA?

A child can inherit an IRA. The problem is, there is this thing in the tax code called a Kiddie Tax. A Kiddie Tax is when you actually accelerate. In the old days, you used to go to your parents' highest income tax bracket. Today, you actually go to trust rates, which means after about \$12,400 of income taxation, you suddenly wind up in the kiddie tax at 37% or 40%, whichever it is. Think about this: if you had \$100,000 in an IRA and you left it to a grandkid in the past, that would've been a beautiful thing. It would have paid for the college. They would've had to take out \$500 to \$1,000 a year, assuming you died before you were 70 and a half.

Today, that's not true. It has to be emptied in 10 years now because of the SECURE Act. Kids have to put \$10,000 a year on their tax return, with any growth at all, they are going to wind up in a Kiddie Tax rate. That's not at all what you intended to have happen.

If you do leave it to a grandchild, do they have to be 18 or older? No, they can be any age.

Can an IRA be left to a trust? An IRA can be left to a trust.



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## Long-Term Care with Dean Huddleston

There was an article about a bill that would provide some tax free retirement withdrawals for Long-Term Care insurance. Is this something that we should do or is it something we should not do? What is this bill all about?

Senator Patrick has proposed a bill that says you could make a tax free withdrawal from an IRA or 401K plan (a qualified plan between the ages of 50 and 59) and not pay federal income tax on that withdrawal or pay the 10% penalty for being under 59 and a half. Currently if you look at a 50 year old male and in good health, his premium would run somewhere around \$2,400 a year. The ability to take the money out tax free and without the 10% penalty is a good deal.

What are some advantages or disadvantages to even taking this type of insurance?

Long-Term Care is one of the highlights that you need to think about if you have assets to protect. If you're going to have money that you leave to heirs, know that your longevity and your life could eat your assets. When you think about an average nursing home stay, currently it's \$90,000 a year. Long-Term Care premiums for women are higher because they live longer and have more of a potential to have the use of it.

How hard are these to qualify for? What is the application process?

It's like buying any other insurance program, but it's based off of your current health. They will ask lots of questions about the longevity of your family, disease that runs through your family, and your likelihood to succumb to one of those diseases. It's no different than qualifying for a life insurance policy. If you have a current condition, it's going to be much more difficult for you to qualify.

Is there a better time during your life to purchase this? What age do we start thinking about this? It depends, but most insurance is bought between the age of 50 and 59.

What if you have a preexisting condition and you can't qualify. What are some alternatives? How are you going to pay for a nursing home stay?

There are alternatives to nursing care like in-home care, which is about half of an annual nursing home care. There's assisted living or home health care, where a caretaker provides services that maybe you can't do, like cleaning your house or cooking your food. You have to remember what triggers Long-Term Care or ADL (activities of daily living): the ability to dress yourself, the ability to transport yourself in and out of bed, in and out of chairs. There's six of them out there that are federal standards and you have to qualify for two of them to activate a Long-Term Care policy.

## Solo 401k's with Grant Soliven

What is a Solo 401k?





Solo simply means you're an individual who owns a business. It is you running the organization and potentially you have a spouse there with you.

Why would I want to consider that if I had been using a SEP in the past?

We have 25% that we can deduct from our income up to a maximum of \$285,000 going into 2020. However, a Solo 401k allows you to enact what we call 415(c) contribution limits. You not only get the ability to put away 25% like you do in a SEP IRA for income that you've earned throughout the year and the business, but you also have the ability to set aside what are known as employee contributions up to \$19,000 for 2019 if you're under 50. If you're over 50, you get an extra \$6,000 and you can set aside \$25,000 of employee contributions up to a 100% of pay or \$25,000, whichever is greater.

What is a simple IRA? A simple IRA is usually set up for an organization who has employees. A simple IRA allows an individual or business owners to set up retirement plans for their team without having to incur extra costs.

Can people who are self-employed have a traditional 401k? They absolutely can. If you're self employed, we would have a discussion surrounding your business practices, what you're looking to accomplish and would a 401k be in your best interest.

How do you find out which option makes sense?

You have to start with the tax return. That is one of the lead documents that allows us to engage in a meaningful conversation on whether a solo 401k, a SEP IRA or simple IRA is best for you and your organization. It also comes down to the saving goals you have inside of a 401k. You have significant contribution limits over those of an IRA.

In talking about these different types of IRAs, as far as the investment options, how are those different?

Inside of a 401k, particularly when you work with a registered investment advisor, those investment options can be anything you want. When it comes down to selecting the platform, whether it be a SEP IRA, 401k, Solo 401K or Simple IRA plan, if you work with a registered investment fiduciary, the investments that you have access to are really limitless.

Is there any one of those three that impact your tax return more favorably as you're taking them out? Not necessarily. Between a simple IRA and a SEP IRA, there is no ability to contribute after tax money.

*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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