

Consider This Program

Episode Date:

February 1st, 2020 Episode

On This Show:

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

Ken Dilger: Former Tight End at Indianapolis Colts, Senior Loan Officer at Milestone

Angi Kinser: Event Coordinator at Financial Enhancement Group

Show Notes:

Topics Include:

- Dating Your Stocks
- Trusts
- IRAs
- Relationships

Dating Your Stocks

I don't believe any one person has the capacity to do this on their own anymore. The rules and the things in this world have changed so much that it requires a team. We have a planning team. We break down many of the planning issues that are going on and things we want to solve within the five critical elements. You can have four perfectly right, miss one of them and bad things can happen. We don't call it retirement planning for a reason. People do different things, but most people don't just sit at home. So we call it Your Life After Work. The second is the Annual Tax Plan. The third is the Investment Playbook. The fourth is Life Happens; it's the good, the bad and ugly of life that you may only have to deal with once or twice in your life. Then, last is the Legacy Plan. When you're done, who gets what?

You have a toolbox. The first tool that people know about and have heard about is stock, sometimes called an equity. Stock is ownership in a company. There's a company that goes public, it raises capital and you've invested in that company.



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Now we're going to talk a little bit about relationships throughout the next couple shows because Valentine's day is coming. For years, I've said: "I married my wife, I date my stocks." It's okay to have a relationship long-term with a spouse, but that doesn't mean I need to hold onto a stock because of what it did for me 10 years ago. Most of the time those stocks are wrapped in mutual funds. Most of the time, that's what you have inside of your 401k plans. They're called Open-Ended Mutual Funds.

Trusts

Are Revocable Trusts and Living Trusts the same thing? Inter Vivos means living and is the same thing as a Revocable Trust. Most people would call it a Revocable Living Trust. We take our assets and put them inside of a trust. That's called funding the trust. So yes, those are all the same things. Everything that you own, that has a deed, title or a beneficiary designation other than your retirement accounts, belongs in a grantor trust.

What are the advantages of being able to pass probate? People think probate has a lot to do with taxes and probate has nothing to do with taxes. If you owe inheritance tax in Indiana, there is none, but if you owe federal tax, having a trust doesn't get you out of that. A trust helps you avoid probate. Probate is merely a process of making sure that your debtors have been paid.

There are trusts that we're dealing with that are set up to take care of IRAs, 401(k)'s, 403(b)'s that have to be altered. Attorneys are working very feverishly to get these changed because of the law change effective January 1st of 2020. If you have a trust or if any of your retirement accounts have a beneficiary that's a trust, you need to seek advice now.

You mentioned a Pour Over, does that mean that anything you forgot to include in the will is automatically exempt from the probate process? Probate just tells the probate courts where to put the asset after they're done charging legal fees.

Would you consider a trust to be better than a durable power of attorney? The durable power of attorney takes over for me when I am incapacitated, either mentally or physically. That's how a durable power of attorney works inside of a trust. If something happens where I'm mentally or physically incapacitated and I can no longer make my own decisions, it doesn't change the taxation of the trust. It makes my will and my wishes irrevocable. Now it becomes an irrevocable trust, still taxed on my tax return. My successor trustees, the people that are in charge afterwards, cannot change my will.

IRAs



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Why would I put money in an IRA to save for your retirement? - to save for retirement, but there's a lot of places you can save for retirement. You don't want to pay taxes. When you retire, you're going to pay less taxes. It's what everybody who sells annuities, everybody on Wall Street wants to get you to believe. Wall Street knows people don't pull the money out; they don't spend it. They can make trades. There's no taxes; there's no complaints. It's an automated annuity for the broker or for the annuity salesman.

"Everybody's on the wrong side of the trade." That means both the buyer and the seller are being stupid. That's what happens when it gets to tax-deferral. You shouldn't be deferring your taxes and I shouldn't be encouraging you to defer your taxes, but we do.

You have the ability, if you qualify, to contribute to an IRA. You have up until April 15th of 2020 for a deduction for 2019.

The second thing you can do is to say, "I've got money sitting in this account. It's been exposed to taxes. I'm not using it." It's money you already have. You've already paid taxes on it and now you have the opportunity to qualify for a Roth IRA, unless your income is a lot higher. In fact, you still have to have earned income.

The third thing that people don't think about with an IRA and a Roth IRA is protecting your standard of living. When you go to retire, it's not about replacing part of your income. It is not a percentage of income. You need 100% of your standard of living. Every dollar that you either save or eliminate debt is a dollar you're not spending. It's a dollar that's not going towards standard of living. It's not that I'm in love with IRAs or Roth, I love the idea of tax free growth forever. It's the concept of making sure that I'm not spending everything that I'm making. It's so if I decide to retire, I don't have as much of a burden in order to maintain my happiness, peace and joy.

Relationships

I have a lot of CPAs that I work with. You would think a CPA would not forget about an asset. Annuities are tax deferred. There's no tax reporting every year. He bought a tax-deferred annuity. Somebody had talked him into putting \$20,000 in an annuity contract in 1990 and he forgot about it. I have all of the rest of the assets, well over a million dollars that we were taking care of. He reached an age when he was notified about his contract. He had put in \$20,000 in 1990 and the contract was worth \$190,000. This is a wonderful relationship. It's the way that it ought to work. The problem was in 2000 it was worth \$210,000 and he never knew it.



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Some relationships cost more to get out of. When you have an annuity, there is a cost to get out of it. There's surrender penalties and fees, but there's also a tax code that you have to deal with that keep a lot of people trapped inside of that annuity environment. They don't think they have any choice. There are things you can do to keep you away from the taxes, but get yourself in a much better situation, especially with fees and expenses. It's our job to try to come up with the best planning solution to help you.

A lot of people hold onto things for the wrong reasons. We're looking for the best thing to protect your nest egg and your trust account. Sometimes, even though you're very loyal to a certain stock, it's okay to dump the stocks and it is also okay to buy it back. That's the other thing. I can go back to dating. Just because I dumped a stock one day, their feelings aren't hurt when you buy them back and dump them again. This is not a human relationship. It's okay to separate, get back together.

Next steps:

1. Give Angie a call at (800) 928-4001
2. Say you want to come in and talk to an advisor.

I'm going to promise you three things:

1. When you come in, whether you meet with me or with somebody on our team, we're going to tell you things you need to consider today.
2. We're going to give you things that you'll want to consider in the future.
3. More importantly, if we choose to partner together, we're going to tell you things that FEG will do for you and put it into writing.

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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