

# CONSIDER THIS PROGRAM

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ON THIS SHOW:

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## SHOW NOTES:

### Topics Include:

- Co-Signing For A Friend
- What To Do Upon Diagnosis
- Annuities and Life Insurance
- Federal Intervention And Stimulus

### Loans and Credit

From a legal standpoint, my son or daughter, niece or nephew, or the neighbor next door are the same. From a family standpoint or emotional standpoint, they could be entirely different, but from a legal standpoint, all three are the same. The question is this: they need \$10,000. I have an IRA. I want to take \$10,000 out of the IRA. What are my other options? If you're under 50 and a half and you take \$10,000 out of an IRA, that's not for you right now. Because the stimulus package, we're in an extraordinary period of time. Rules have changed and you have the ability to make a withdrawal without a penalty. You have the ability to even pay it back over a period of time to put it back in if you want to.

In a normal environment, we would tell people your other option is to cosign a loan for somebody. There are things that you need to think about in co-signing. Is it better to loan cash or co-sign a loan or credit card for a family member?



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Think about what you're doing with the cash. Let's say I'm willing to give \$10,000. If I've already got the \$10,000 set aside, I'm taking no more risk by co-signing the loan making you build credit in your own name and making you pay the interest. The only reason that I loan you the money as opposed to co-sign would be if I was wanting to do it at a lower interest rate for you. If someone's coming to you for a loan, they probably don't have the money themselves. I might be worried that if I co-signed, my credit could be in jeopardy if they didn't make the payment on time.

Can you deduct the interest on a personal loan? If it's done correctly and it's a personal loan on a property, the answer is yes. If it's for their house or a car, no.

The old adage is true: banks will lend money to people who don't need it. With the stimulus package we have right now, fortunately a lot of small businesses that have had no access to capital are going to be able to get it. You really need to be working with your banker and your SBA, getting your numbers and payroll stuff squared away.

If you loaned to a family member, do you think it's out of the question to ask for a contract? Not at all. And in fact, if the loans are more than that amount of money that you're able to give, it should be a contract. It's one of those things that needs to be addressed in your estate planning work.

### **End of Life Planning**

10% of us die, 90% of us fade away. What does that mean? It means we tend to break down over time mentally and physically, before we actually die. 10% of us do tend to have a stroke, heart attack, or accident, and die. This segment is to help people with end of life planning when it occurs both emotionally and financially. When you know it's coming, you've been to the doctor, they say you've got less than six months to live, what should you be considering financially and emotionally in your life? This is a tough conversation, but it's a real one that's going on right now.

How do I know if I need a trust? What can you put into a trust? Almost everything except an IRA. You don't want to do that right now, but your life insurance, your house, your cars, everything else you can put in a trust. Why do you put money in a trust? You do it for control after you're gone, to make sure that it's distributed to the people in places that you want it to go. You put it in a trust to avoid probate fees and expenses. You put it in a trust for ease of use. It's much easier on the people who are going to take care of your stuff then going through the probate process.

The bottom line is if you have a house and you've already put a beneficiary designation for all intensive purposes, a life insurance policy and you've already got the beneficiary named and your 401k already has the beneficiary designation, none of that has to go to a trust in the 401k. An IRA shouldn't go to a



trust under the new tax code. That's why you use the trust. It's for control and to be able to direct where you want your money to go.

How important is a power of attorney? A power of attorney, especially at this stage of game, if you're getting there, is critical because there's going to be decisions that have to be made while you're still alive. You need to have somebody who has the ability and the power to sign your name to make important decisions, whether that be for your house or your banking to be able to pay your bills.

What about a will? Most people think they should have a will. Everybody in the state of Indiana has a will, you just may not like what it says. You either die testate or intestate. Intestate means you die without a will. Testate means you have your own. I have a will, a pour over will. Now, I don't want to run out of time on this, so I'm going to go straight to the financial part of this.

When you buy a property or a stock (not in a retirement account), you have what's called tax basis. They call it cost basis. You used money that you'd already paid taxes on. There could be two different issues that could happen. I could be in a situation where if you're my beneficiary, I could have a lot of expenses and taxation this year. When you die, you're going to file two tax returns, your final estate tax return and your 1040. There's going to be a final income tax return for me, even if I'm not here the year that I die. It may be better for me to sell that because of my tax bracket now, but most likely it's better for me to die owning it.

Nonetheless, when you inherit it, you will get a step up in basis. Now that your basis went from a hundred all the way up to a thousand, you can sell it and incur no taxation where if I sold it, I would have had to incur taxation. There's a lot of people that are holding on to stocks. Because of that, they want you to get a step up in basis. That's not always the best plan folks. A lot of the decisions that we made, things that we learned in the past are not necessarily accurate today.

### **Managing an Annuity that You've Already Purchased**

The only reason I still have a securities license is because people call us every week off of this radio program that have annuities. We're able to transfer those annuities into our name so that they can be properly managed and properly taken care of, especially in crazy times like this.

You've got commissions that are usually deferred on an annuity so you don't see the fees and expenses. The insurance company pays money up front to the broker who sold it to. The reason you have a surrender penalty is so they can get their commissions back. If you bail out early and they want to trap your money inside of that, then you've got various different investment options. It could be working, it could be a fixed annuity where the insurance company is using your money and making money off the



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spread. It's called a fixed annuity. It could be an equity indexed annuity where they're using futures contracts that the broker didn't understand in terms of how they work. They'll show you average returns of what the market did. They're not lying to you because they know they're lying. They're just lying to you because they don't know they're lying.

They're very confusing and very complex. Then the variable one, you've got the mutual fund looking "critters." They're actually called separate accounts, but you've got investments that are in there. You've got all of the expenses you would normally find in a mutual fund, from trading and operating and a manager's fees and expenses that are there. Then the big one, when somebody has a guarantee that they're going to get a 5% income for life. Especially in periods of time like right now with market uncertainty, it's easy for people to get suckered into those deals and literally pay \$48,000 a year in fees and expenses. That's what we would call a drag on investment return.

If you're exchanging property and you don't want to pay taxes, you can do what's called a Starker Exchange or a 1031 exchange. In the insurance world you can use a 1035 exchange and it lets you do tax free transfers. Never surrender any insurance policy, life insurance or annuity without knowing what your tax basis is.

The 1035 exchange lets me transfer money in one annuity to another annuity, money from a life insurance policy to another life insurance policy, or money from a life insurance policy to an annuity. There are people who are wanting to buy life insurance now that have a nursing home rider and the long term care rider. This is an ideal time to use a 1035 exchange on one insurance policy.

Even though it's not considered a taxable event, do you still have to report?

You get a 1099, so the IRS is aware that you had money in motion. Sometimes that money in motion is taxable, sometimes it's just reportable. Is there a way to get out of an annuity? Absolutely. Once your surrender penalties up. A lot of the people have their annuities in IRA money. It's not taxable to leave the IRA annuity to go to an IRA to get rid of all of those extra insurance costs.

### **Retirement and Taxes Through the COVID-19 Crisis**

The Federal Reserve did intervene from the time of this recording a couple of weeks ago. And then the federal government actually intervened. You've had a double whammy in the middle of this pandemic. I will tell you that I saw a great quotation as I studied all of this. "In a crisis moment, any action will appear to be an overreaction. And when it's over, everything will appear to have been less than necessary". And that's certainly what came out of 2008 in the financial crisis. If they had to do it over, they would never have let Lehman go under.



When the Federal Reserve stepped in two weeks ago to begin to provide liquidity into buying corporate bonds, I'll explain a little bit of what happened there. When they did that, people had no idea the dislocation in the bond market that was taking place when the federal government signed a \$2 trillion deal to save small businesses, provide unemployment insurance, etc. There are people who screamed, that's an overreaction. How do we pay back 10% of our GDP? We don't know what's going to happen.

Will I have to push my retirement back until my investment accounts catch up? What if you were planning to retire right now? If money is managed correctly this should not impact your retirement. If it's managed incorrectly, that's a different story. When we always look at it from our vantage point of having cash ready to take care of the short term distribution needs and when you go to retire, that could be anywhere between, depending on the marketplace, anywhere between 6-18 months. I would not let the short term place in the marketplace, if your money was being managed correctly, change or alter your retirement decisions.

Some of the things that have come out of the stimulus package still have people on edge. Can we really wait until July to file our taxes? We can. April 15th is a deadline to pay; this time it's been extended to July 15th. It's not necessarily something that you need to do. I will put this out there for those of you that will get the \$1,200 check per person or if you're married, \$2,400, if you have kids under 17, you'll also get \$500: you want to make sure that they get to your address. Go to the [irs.gov](https://www.irs.gov) and form 8822 is how you can update your tax return. One of the things that you can do as a parent if you happen to have the \$1,200 and you trust your child, you can give them the money now if they need it for rent. The government's trying to get the money out as quickly as they can, but there's only so much that you can do. Does this include state as well? This is a federal. It's all tax free. It's a refund credit. It's like a refund of your own 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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