Consider This Program

Episode Date:

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On This Show:

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

Angi Kinser: Event Coordinator at Financial Enhancement Group

Ken Dilger: Senior Loan Officer at Milestone Home Lending

Show Notes:

Topics Include:

- Retirement Budgets
- What Are Caps
- Inheriting IRAs

Standard of Living in Retirement

Can you maintain your standard of living?

It makes sense to talk about a budget. It is important to understand. For the 40 years of your accumulating life, when you're putting money in accounts, we have balance sheets. For 40 years of your life, you have focused on seeing what an asset value is. When it's time for distribution, you have to flip a switch.

It's now about income. It's not about assets. Now you're still going to get statements because the SEC is not going to allow me to stop sending them to you. But it really, really is about income. You have to have discipline and you have to have a philosophy that you're willing to stick with. Income and assets are two different things.

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CONSIDER THIS WITH BIG JOE CLARK, CFP

What phase of or timeframe should you invest in growth models? I don't believe that age is a function of money ever. I think it's based on need.

Tools that are lurking inside of your 401k

When you open up your 401k and there's choices of where you can put money, you're going to hear words like large cap, mid cap, small cap, and global. What is the difference between those three classes of small, mid and large? Anytime you hear the word cap/market cap, it stands for market capitalization.

There's this very simple formula. It's:

(1 share of a company stock) x (current price) x (number of outstanding shares)

Large cap simply means it's the largest of companies that are out there based on capitalization. About 18% of the companies in the United States that are publicly traded qualify as large cap, yet 68% of mutual funds are large cap. The difference is just in the size, in terms of market capitalization. Typically, a large cap stock will be less volatile than a mid cap or a small cap, but that's not always true. A company that has 10 billion shares of stock outstanding, versus 300 million, is going to have more volume. By definition, it would be more liquid.

Which is more costly to own? There's not necessarily a cost to making the acquisition anymore. If you're working with a broker where you're buying stocks and you're paying commissions, you probably ought to be moving along.

As a rule of thumb, is the performance better on one than another? Performance at any given time is always relative. From a volatility standpoint, typically the smaller companies are more volatile than the larger companies. They also have a period where they have greater returns in part of the market cycle. Where you are in an economic cycle can be a debatable issue.

IRA Contributions

The Secure Act passed December 20th. One of those things that it allowed for was the ability at any age for you to contribute to an IRA, provided you had earned income. In the past, when you got to 70 and a half, you could no longer contribute to IRAs.

There are really three IRAs that are out there now. One is a Roth. We pay the taxes today on the money we're putting in, but we never have to pay the taxes when we pull it out. The second IRA is either deductible or non-deductible. I call it two different ones. It's deductible if you meet the qualifications.

The qualifications are: you have to have earned income and you have to have a limited amount of income. If you have a 401k or a retirement plan at work, that makes the restrictions go even further.

Why would you contribute to an IRA? We created a concept called the backdoor Roth IRA, where you put money into a nondeductible IRA and then you're able to convert it to a Roth IRA.

Can you still contribute after age 72 since people are working longer today? The answer is yes. What are the rules for earned income? What's considered earned income and what is not? Typically it's anything that you're going to pay social security tax on. We have essentially two structures of tax.

Should you be making IRA contributions or contributing to a taxable account instead? It really depends. There is no more of a no brainer in my mind in the tax code than doing a QCD, if you're over 70 and a half. Whether or not you should contribute to an IRA while doing that is a whole other story. What if you have an employer that matches you up to a certain amount? Once you reach that, do you suggest that people keep contributing there? I would look to see if you had tax diversification: if your money was equally divided in three parts between tax deferred, tax free and after tax. Then we look at your 401k to see what the investment options are inside of it.

What is the catch-up provision? The catch-up provision is because we're over 50. If you're under 50, you can put 5,000 or $6,000 a year into an IRA. If you're over 50, you can put in $7,000. If you're under 50, you can put $18,000 in a 401k. If you're over 50 you can put $25,000 a year.

Inherited IRAs

Can the RMD calculation be reset when a successor beneficiary inherits an inherited IRA? There are two types of beneficiaries, there's you and your spouse. There's also non-spousal beneficiaries. It's very complex. A spouse can always roll her or his 401k or IRA into their name. Before, if you left it to your kids, they could roll it into an inherited IRA. If you were under 70 and a half, they actually get to take the money out over their life expectancy. The rules changed. Now your kids can roll it into whatever they want. The spouse or the non-spouse, anybody else, has 10 years to empty the account.

You want strategies where that money is paid out over the 10-year period as opposed to over one year, but that's the rule that's changed. If you already inherited an IRA before December 31st of 2019, nothing changed. If you were a spouse, nothing changed. If you were anybody else with exception of: chronically ill, disabled children, minors, people that are within 10 years of the age of the beneficiary; everything changed.

Can you combine IRA accounts that are inherited from the same individual? You can, as long as RMDs are calculated using the same life expectancy, right? It depends how the beneficiary was originally titled -- whether it was a living, breathing person that the IRS calls a "designated beneficiary." But, if you have an inherited IRA and it's from the same person and you are the sole beneficiary, you could probably put those together

How should you title an IRA if there are successors or beneficiaries, either spouse or non-spouse. Is there a certain way that you should title? Each custodian has their own. If I kick the bucket, you would have an inherited IRA, an inherited IRA from *Joseph A. Clark* for the benefit of *Angi Kinser*, and then the date of my death. But not all money is created equally. If you walked into my office and said, "Joe, I have $2 million." I'm going to ask you where the $2 million is because if it's $2 million in a 401k versus $2 million in a checking account that you've already paid taxes on, there's about a 30% difference between the two.