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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:

- Making Honest Mistakes
- Parents and Children Discussing Finances
- Life Insurance Premiums

The Danger of Assumptions

While doing mountain climbers, I injured my ankle. I know what it is, and I don't go to the doctor. I don't go to the doctor because I think I know things. Seven or eight years ago, I ruptured my calf by doing high steps in the gym. I went to the doctor and he put me in one of these ugly boots. 6 weeks later, sure enough, my calf is healed, but my hip hurt for six months because of the waddling that you do. The boot is higher than the other side and so for six months, I was in dire pain in my hip. So when I hurt my achilles this time, in my mind was what happened seven years ago. I just made a presumption that they were going to put me in a boot and I was going to hurt my hip again. I finally go and they put a boot on me. I'm there for 15 minutes, the boot comes and the nurse can tell I'm under distress. She looked at me and asked what was wrong. I said, "I did this seven years ago. I really hurt my hip." She looked at me and said, "Mr. Clark, we solved that."



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I'm the one who watches people wreck their retirement because they don't understand that things are different than what they believe to be true.

Many of you are making assumptions and decisions with your retirement accounts and investment accounts that are out of date. There's things that have changed. We've heard over the years about folks who have saved in one account thinking they could use it for a child's college fund. Then they get to that point and they find out they can't do that anymore. There's so many things that change all the time. It's actually really sad.

Many of you don't want to ask for help. I get it folks. I'm telling you: you only get one shot at retirement. You really really do.

How to Discuss Finances with Your Parents

How do you discuss finances with your parents? It's a really taboo topic. One of the reasons is because of the generational differences. Sometimes with the older generation, money is just not something you talk about. It is also because parents may realize that they're slipping and that's why you're coming. Also, there might be a little element of shame or guilt. Maybe: I didn't save as much as I should have and you don't really want to share that with your kids, because you always hope that your children will do better than you.

You want to make sure that your parents are not going to have to financially rely on you to take care of them should their health begin to deteriorate. I think what we're seeing happen is people retiring and their parents are stuck at home. It's a conversation. Are you prepared for these things happening?

A couple shows up at my office and they want to know when they die, who gets what and how they get it. I have to look at them and remind them that 90% of the time we fade away, we don't just die. Only 10% of have accidents like heart attacks or strokes 10%. The number one thing that we try to do is protect them in the event that they fade away. How do you know you're fading away? When you see somebody everyday, you don't know that they're slipping. If one handles all the finances, the other one may not even know that there's anything wrong, if there's extra spending or if there's money leaving that account. They wouldn't even know.

Why would I want to leave money behind to people who are ill prepared or unequipped to handle it if I could take care of it today. One of the things we do is called family bundling. If you are one of our families, we take care of your kids, your parents, your brothers, your sisters, even if they wouldn't necessarily have the financial assets to be able to come in and be one of our families in the first place.



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We do it because we know at some point in time, we're going to be responsible for those relationships as well.

Not all beneficiaries are created equal. That's something that people probably don't talk about. You just assume you're going to leave everything equally to your beneficiaries. You really have to pay attention to what's Roth money, what's not Roth money, what their tax break or their tax burden is. As a child, they'll have to pay the taxes and they may have alcohol problems, drug problems, gambling problems and marital problems.

Life Insurance

Because of the tax code change in 2020, more people are probably going to need to use it. Before we even get into it, what are the differences between the main types of life insurance (whole life, universal, and variable universal life insurance)? Do I need term life insurance or do I need whole life?

It's all in a renewable term and then insurance companies choose to package it together to make it a better sales mechanism. Whole life is probably the one that's known the most. You can buy a new renewable term. I always buy 10-year. I have 10 year and a renewable term. That is what's called convertible. I can convert it to permanent insurance. Whole life uses a combination of dividends or what's called "paid-up additions," and the premium never changes over the course of your life.

Insurance agents have a habit of moving money from one place to another right. Never cancel a life insurance policy without talking to someone that knows the tax code. Life insurance functions under a thing called FIFO, first-in first-out. You can never deduct the loss with life insurance. If you paid premiums and you're getting less money out of it, there's no deduction available for that, but it is taxable under your marginal rate. If you had one of these policies for 20 or 30 years, we want to know what the cost basis is (what you paid into it), and then use a part of the tax code to be able to move that money into a non-commissionable vehicle, but retaining the tax advantages.

Universal is a combination of a renewable term insurance that's calculated on a monthly or quarterly basis along with investments. Then, the variable just means that it's subject to market volatility. It tends to use things that look, smell, and act like mutual funds that by definition are called separate accounts. You're investing in the equity market instead of a guaranteed account. I strongly recommend that you have it evaluated because interest rates have been less than what we expected and a lot of the market had more volatility in it than what people suspected.

Is there a general rule of thumb of how much term life insurance you actually need? I prefer term life insurance. Would you say that's a simple death benefit? I tell people: you need life insurance for one of



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two reasons. You need life insurance for liquidity. If you have a lot of debt that you're going to leave your spouse with or if you're a business owner, you may need life insurance. The second reason is replacement of income. Life insurance commissions tend to be much higher than disability income.

Compound Interest

"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it. Is there a formula for compound interest? How is simple interest different? With simple interest bank accounts, you have to pay interest on a quarterly basis like a CD. When you look at the return, if it says it's a 4% CD, the annual yield is greater than 4%.

With mortgages, if your rate is 4%, it's more than 4% over the course of the year. That's because you've got continuous compounding that's going on inside of it. Compound quarterly means you get a fourth of that, but your next quarter, you've also got compounded growth that you had from the first quarter. It's not substantial, but it does add up over time.

What about simple interest? Simple interest just depends on how often the compounding of time. If it's every single day then it's every single day.

Just as it pays on earnings, how does it work with debt? Say, credit card debt. Interest rate divided by the number of days in a year equals the amount of interest that is going to change or fluctuate (good or bad or indifferent) on any given day.

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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