Consider This Program

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On This Show:

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Show Notes:

Holiday Shopping

1. Can these types of events be indicators? (Black Friday, Cyber Monday)
2. Can these numbers be indicators of what our economy's like right now?

They can be a change. Headlines are written in such a way to incite interest and to try to attract. One of the things that you always need to remember financially, with those numbers, it's almost always a comparison of year over year. We all get into this relative comparison, and that's where people get into trouble. When you're dealing with economics and numbers, we want to look at year over year and quarter over quarter performance. That's the same thing that happens when you talk about brick and mortar stores. 70 some percent of all sales still exist in brick and mortar. It's just they're a lot less than what they once were. About 23% are cyber-based. Did they come, did they come out of nowhere?

Well, the trend is the convenience of a store like Amazon. Amazon represents 42% of all online sales.

3. Do you think brick and mortar will always be there?

I believe some brick and mortar will always be there because there's something about experience shopping that is different than just shopping.

I have some figures on ups because they gave some shipping information. Amazon's expecting 3 billion packages to go out this year. And just between Thanksgiving and Christmas, UPS expects 32 million. That is a bundle.

The Five-Year Rule

If you only had one investment that you could put money into, that had the ability to do more things than anything else, it is probably the Roth IRA. The Roth is the Swiss Army knife of investment tools. There are other reasons besides retirement to use a Roth.

If you are starting in 2020 (don't forget: you can go all the way up to April 15th for your 2019 contribution and you go up to April 15th of 2020, if in 2019 you're under 50), you can put in $6,000 a year. Next year you can actually put in $6,500 if you're under 50. If you're over 50, it's $7,000 for 2019 and $7,500 for 2020. You have to qualify and you have to make a limited amount of income, but it's a pretty high number. Most people in Indiana do qualify to be able to contribute to a Roth IRA based on adjusted gross income.

1. What is the five-year rule?

The five-year rule is very interesting and it is a very difficult thing to be able to track. The whole thing about our tax system is that it is a self-reporting organization, meaning you're supposed to openly and happily tell the IRS how much money you made. Then somebody reports those for you. The five-year rule says when you started your first Roth IRA. Once you made your first contribution to your first Roth IRA, you've started that five-year clock forevermore. After you've put money in for five years, it's called an ordering rule. The first money out of a Roth IRA is contributions. First money out is money that you've put in that you're always eligible to get out without taxes and penalties. You don't have to wait the five years. The second then is the growth that would be on that money, on those contributions.

2. "I'm a 64-year-old retired federal employee and plan to transfer all of my funds from the TSP to my traditional IRA. From there, I plan to make annual conversions to my long-established Roth IRA. Is there an issue with the five-year rule that would prevent me from being able to make withdrawals from the Roth during the next few years?"

Yes, it really just creates confusion. You can have as many IRAs as you want. Unlike a Roth contribution that once you started the five-year clock, goes on. The five-year clock starts with each conversion period. If you're going to do conversions and there's a chance you might need the money, I would not put them in the same account that you had a Roth contribution. If you're only going to do one conversion, then maybe, but if you're going to add more conversion money to it every year, I might do it a little bit differently. Remember in a perfect world, the fewer accounts you have, the better off you are. Your expenses just tend to be cheaper. But you can create some tax confusion there, especially if you're doing it on your own.

3. Is there any way to do a charitable distribution from my IRA before I reach the RMD age?

No. Under the current tax code, you cannot. QCDs can only exist at age 70 and a half and beyond when you have required minimum distributions.

Required Minimum Distributions

1. For those who don't need the income, are there ways to lower the tax hit of an RMD?

There are. If we're dealing with people who've already reached 70 and a half, the reality is you need to get on this program as quickly as you can. You want to be paying attention to your tax return. We're talking about tax planning. Start early, be proactive, understand you are on a financial journey that will last your entire lifetime. Tax planning is not pointless, it's just hard to quantify.

2. “I'm over 71 and I have two IRAs: one in my name, the others inherited. Can I take one RMD from the inherited IRA to satisfy both or must I treat them separately and do two separate RMDs?”

You cannot take them from one and satisfy both because they are two separate types of investments. You can take a QCD from an inherited IRA. People will tell you you cannot, but you can. However, the person pulling the money out has to be over 70 and a half. If the person who died was over 70 and a half, you cannot do a QCD out of an inherited IRA that you have at age 40, just because the guy or lady who died was over 70 and a half. You, the recipient of the income, have to be over 70 and a half. If you are charitably inclined, have IRA money and are over 70 and a half, you should use a QCD.

3. Are RMDs taxed at ordinary rates or capital gains?

Ordinary income rates. There is no way to get money out of an IRA at capital gains rates. You can get money out of a 401k under a crazy thing called NUA. That stands for Net Unrealized Appreciation. Very rare does it work and you have to have company stock that you've held for a long time out of an IRA. It's all going to be taxed at your marginal rate as ordinary income, your highest rate possible.

4. If you're still working at age 70 and a half, can you forego taking the RMDs from your 401k?

You can from your 401k, provided you don't own more than 5% of the company that you're working for. If you're over 70 and a half, you cannot contribute to what we call a traditional IRA. If you qualify, however, you can still contribute to a Roth IRA.

5. If you are working past age 70 and a half and considering retirement, is it better to schedule your retirement date at the end of the year or the beginning of the year?

It really depends on your situation. What you're trying to do there for the most part, especially if you work for yourself, is maximize your tax bracket. You want to have enough income in one year to be above the 12% bracket and not sneaking into the 22% bracket. When you retire would be unique to you, all based on taxes. Now if you work for another company, it could be based on benefits, when you get vacation time, bonuses and all of those other things.

Annuities

1. Is there a time and a place to actually have an annuity? Can you think of a time?

Yes. For instance, we live in Anderson, Indiana, the previous home of General Motors and over 20,000 people. We got a letter four or five years ago that said we are going out of the pension business. Your pension currently comes from our pension department. We have let them all go at this date. You have a choice, you can let your money roll to Prudential (with Prudential, we'll put the money into an annuity and send you a monthly check) or you can take all of the money and roll it into an IRA, your call. They left this in the hands of individual people that were 70, 75, 80 years old. People called me so confused. You would think that there could be one answer.

The answer is it really dependent on the person. I came up with 23 different questions that they had to answer to help guide them through. For people who had a propensity to make bad investment decisions or to be irrational with money, they should've chose the annuity because then they didn't have the opportunity to have that taken away.

2. With those Prudential annuities from GM, what happens when those people die?

When you buy an annuity, first of all, it has to come from an insurance company. When most people think about an annuity, they think about a concept called annuitization. Annuitization is where you trade a lump sum of money for an income for as long as you live. The risk to the insurer, the insurance company, is that you may live too long. The risk to you is that you die too soon.

There's usually a thing called a 10 year period. If you die in year one, your beneficiary would get money for the next nine years. If you live 12 years into retirement, that's past 10. You die, income stops. You've given away the lump sum; you've taken the risk of that money running out and given it to an insurance company.

3. Can you own an annuity jointly with your spouse?

You can own one in a joint annuity and you can have co-annuitants. I would rather see the money split and have money on each of the two lives.

4. Are fixed rate annuities affected by the low interest rates that we're experiencing now?

With a fixed rate annuity, there's a minimum annuity rate that the contract can pay you.