

## CONSIDER THIS PROGRAM

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ON THIS SHOW:

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### SHOW NOTES:

What is the difference between an IRA conversion and a recharacterization? So when we think about this, there are two C's in the world of Roths. There are Roth contributions. You can contribute to a Roth 401k if your plan allows for it, regardless of your income.

You can contribute to a Roth IRA if you have earned income and not too much earned income. Roth conversions, on the other hand, are when you put money into a Roth IRA and you need to pull some of the money or you put money from an IRA into a Roth, whether that be in the 401k or in an IRA. You pay taxes on the IRA money now, but you don't have to pay any of the taxes on the growth. Now, where do you get where it gets interesting? You never have to pay taxes on the growth, but it is called the backdoor Roth IRA contribution. You have to be under 70 and a half. You have to have earned income.


There is still a Roth recharacterization that you can do. That is if you happened to overfund your Roth IRA. In other words, you put money in a Roth IRA, you got a big bonus at the end of the year and suddenly your CPA said, "by the way, you weren't eligible to do that Roth contribution." Well the IRS gives you a way to get out of it. That's the Roth conversion, rather, recharacterization.

How do we know if we're in a recession? Well, there is an official answer to that. There is an actual institution, the National Bureau of Economic Research that is charged with labeling whether or not we're in a recession or not. So it is an official status. There was an old shortcut that we were taught that if you have two consecutive quarters in the economy where you actually contract instead of grow, that's a recession. So those are really two of the key indications. I think you would find other niche ways of describing it, but those are the two that really matter.



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How often, I mean like overall do they occur? They used to be a lot more frequent, but as we go through time, they become less frequent. How can you prepare for one if the indicators are there and you think one's coming? As an investor, I think you have to look at the sectors you're invested in. Some of them do better in recessions than others, so you certainly want to look at that positioning. You want to look at your growth versus value. Through this long cycle since we had the last one, the economy's concentrated into a very small group of companies. You want to look to see if you're overexposed to too few number of holdings, because I think you're going to be really exposed when we do have that next recession.

What role does the Fed have in a recession? How do they impact it? They are the cause of recessions, because as human beings, we tend to be more confident than we should be. We elect 12 people responsible for setting interest rates for an entire economy that should not be set by human beings. We are meant to error. They're looking at data that's too far in the rear view mirror to act. So the case is that they always have interest rates too high, too long, and that tightness of money pushes us into a recession each and every time. They are the cause and then they're too late to dig us out of it.


How does household debt impact a recession? It depends on the level of household debt. If you think about it from an economic standpoint, the idea is you want growth. The best growth comes from either you spending, which means you have to have capital that you can decide to spend, on vacations, cars, TVs, washers, dryers, houses, etc. The same is true for business in terms of capital expenditure. Anytime you have debt, whether it's a household or a business, you're borrowing from the future.

What tax changes could either of us expect when one of us dies? When one of the spouses passes, what is going to happen with social security income? This is a very important thing. All things boil down to your tax return. If you do not start there, you are missing the boat. Married filing jointly means you have standard deductions of \$24,000 a year, if you're under 65. As a single person, you have \$12,000 worth of deductions that you're able to put on your tax return, enabled to deduct in terms of expenses. So you're suffering the widow or widower penalty... your spouse has the remainder of that year to be married filing jointly, Right at the end of the year, he or she will then be filing as an individual and that means he or she is going to the \$12,000 standard deduction. If he or she is over 65, they'll bump up to \$13,600. But the bottom line is part of your income does stay the same, but your tax bracket can easily, especially with IRAs, expand. So you can end up paying more taxes or at least a higher percentage because you lost a spouse. Can more of your social security income be taxed now that you've lost a spouse? On taxation, remember up to 85% of your social security can be taxed. We're talking about income tax, not social security tax up to 85%. It's based on your total income. If you're filing as a single individual or a widow or widower, you could very likely pay more taxes on your social security. What happens to social security



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payment, though? But as a rule of thumb, you get the bigger of the two benefits, especially if you both took it at let's say age 62. The first year you could take it, which rarely should you.

Once your standard deduction is cut, then your income increases. Even if you're at the same, it can increase. Your income goes up every year by virtue of getting older and that's what drives many people into higher tax brackets. But it can lower your actual net worth because your increase in taxes can decrease your net worth.

“My spouse carries our health insurance through his employer. What if something were to happen to him? How could I be able to afford health insurance?” You have to have a lot of money or you have very little money and you're able to qualify for the programs that they have through the state, that came under the affordable healthcare act under the current rules that exist. Some places may let you keep your employers benefit. You're going to have to find out from the employer; all plans are different. They are not created equal. The key thing is there is a penalty that is imposed when people die.

How are we going to determine the value of some real estate that someone just inherited? The easiest thing to do, no matter if you get it inherited or refinanced is doing an appraisal. You have to get an appraisal because the IRS wants to know what the value of the property was. What is a step up in basis?

*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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