

# CONSIDER THIS PROGRAM

EPISODE DATE:

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ON THIS SHOW:

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## SHOW NOTES:

Free application for federal student aid. FASFA.

1. How do my retirement savings accounts affect eligibility for the FASFA?

The good news is, technically, retirement accounts are an ineligible thing. Per the way the rules work. So you're talking about IRAs, 401ks, non-qualified or qualified. This is another one of those instances where people confuse what is a retirement plan and what is not. An IRA is technically not a qualified retirement plan, but under the rules, I believe IRAs do fit into that excluded rule. If you save and accumulate money to be able to put your kids through school, then they're able to get less funding, less financing, because you did the right thing.

2. What if a grandparent owned 529 accounts? Do they affect the eligibility of some financial aid?

Yes and no. When you open up a 529 in Indiana, with the Indiana college choice, you get a 20% tax credit up to \$5,000 per 1040 that you make (in terms of a contribution). If you're a single person and you want to contribute to a program, you can get up to \$1,000 state tax credit. You need to pay \$1,000 in state taxes, but you can contribute \$5,000 to a program. Technically, if the child has two parents divorced to single people, they could each do that.

We have an expert here on our team that helps people. We don't do college planning for people who call in, but when we have families that are helping their kids go to college we do believe it's a family affair. Grant Soliven, one of our planners, one of my students at Purdue almost a decade ago now, is the one who's responsible for helping people with the government and the FASFA form and the student loans. But the point is, as a grandparent, if I were you, I would look at my grandkids and say, here's the deal: "I will pay for year four." So, put the money in, get your tax credit, but I would be very, very careful when you go to use it.

**Can a Pension Lower Social Security Benefits?**



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1. I'm getting ready to apply for social security benefits. I've worked in both the private and the public sectors, equally. How does this impact social security benefits?

In a large way? So here's the deal. It's based on your last five, your five high-income years. This is based on your 35 high years, right? There are a couple of provisions that are in there that create challenges. We all know under the Social Security world that if something happens to me, my wife's entitled to my Social Security benefit or part of it, even if she was a federal employee and didn't pay into Social Security.

Well, that would sound like a windfall in most people's world. In order to prevent that, they have the windfall elimination period and the government offset program designed to do two different things. It's to make sure that you don't get benefits that you didn't pay for. It's designed to make sure that you didn't get to double-dip (have money coming from a federal pension as well as a state pension). What you need to keep in mind with Social Security is the complexity that really exists there. The first income that you get paid out is it almost a 90% replacement of the income that you paid in, so if you didn't make a lot of money, when you get your Social Security benefit, you're going to get paid back a big chunk of what you put in.

But it goes down from there... all the way down to where you're getting about 15% back of what you put in, the higher your income. Secondly, are the taxation that's on it. Your taxes go up based on all of your income that shows up in your 1040, so you can have Social Security that's taxed as little as 0% all the way up to 85%, and our required minimum distributions count toward making it more taxable.

2. Do pensions from past employers affect those benefits?

They do from a tax standpoint. You want to always look at four things and make sure you understand them all thoroughly. Risk and volatility, fees and expenses, taxes today and tomorrow, and real return. Any money that you have that hits your checking account, you have to pay taxes on. When it originally started, there was no tax and then it went to 50% of it could be taxed and now it's across the board. If you make very little other income besides Social Security, it can be tax-free or it can be all the way up to 85% tax if you have a pension.

3. I need to take a large distribution from my IRA this year. Will it bump my AGI? What about the taxes on my social security?

If it makes you go to a higher threshold, they can indeed make you more taxable. I know the question said he or she had to take a distribution to be able to satisfy the required minimum distribution. If that's the case, I would strongly encourage you to find out about qualified charitable distributions or QCDs. We can help you with that. We are big proponents of charitable gifting.


### Taxable Events

1. Is it a taxable event to withdrawal advisory fees from my non-qualified fee-based annuity?



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What does a taxable event mean? It means you've done something, you've taken money out for a reason and now the IRS is going to tax you for it unless you can explain why or put it back into something else.

An advisory fee is what you pay. If you have a mutual fund inside of that mutual fund, there is a gentleman or a gentle lady who is serving as a fiduciary for the fund. The fund is technically a trust. If you happen to have an annuity, an annuity has things that look, act and smell like mutual funds inside of them. By definition, they're really deemed a separate account, but they function the same way. So you have a "fiduciary" in actively managed funds where there's somebody inside of that separate account. Each one of those individual acts on your behalf. They are pulling money out of your account to manage money. They're paying themselves, paying for operational expenses and everything else.

Anyhow, when we would take money out of a non-qualified annuity, somebody put money in an annuity, not in the form of an IRA. That's what non-qualified means. They had it in an annuity, pulled money out under annuity rules. The first money out had to be the last money in. It was fully exposed to taxation including advisory fees that we would charge. There are annuities that pay a lot of commissions and there are annuities that pay nothing in commissions. If we are going to use an annuity, I would prefer the latter. We don't sell things at the Financial Enhancement Group. We want to use tools and techniques to solve your biggest questions.

## Contributions

Can I deduct contributions to my traditional IRA?

What does traditional mean? When you hear that word, it means it's not a Roth. An Individual Retirement Arrangement allows for you to put money in and deduct the money from your income taxes, provided you qualify for a litany of things that have to come out.

2. What is a phase out?

When you put money in, if you do not have a retirement plan at work, you have earned income, then you can contribute to an IRA. That is a deductible. However, if you or your spouse happened to have a retirement plan at work, suddenly the amount of income that you can make and deduct drops significantly. So if you make over a certain amount of money, then you have to pay that.

You don't get to deduct it. You have what's called a nondeductible IRA, or you begin to build a call tax basis in the IRA. Now the phase out. Once you get to that certain threshold, you're phased out. If you make less, you could do the deductible IRA. The more that you make, the more you phase out. Same thing that happens with itemized deductions, based on the size of your income and in previous tax returns.

If you have earned income and you are under age 70 and a half, you can always contribute to an IRA. It doesn't mean that it's deductible. We use a whole other strategy called the backdoor Roth IRA. There's a strategy to be able to get that money into a Roth IRA.



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3. Is a thrift savings plan (TSP) the same as a 401k?

Pretty much. A few different rules, but for the most part it acts like a 401k. Are Roth contributions different contributions? Yeah.

If you're in the military, there are some differences. If you go to war or if you're stationed overseas, the IRS makes some exceptions for you to be able to contribute to IRAs and Roth IRA. Roth means you're going to pay taxes on the money today. You're not going to have to pay taxes in the future.

*These questions are just the tip of the iceberg and you need to be asking these questions now before it's too late. The Financial Enhancement Group has offices in Anderson/Fishers and Lafayette, Indiana, but they also take care of families in 30 other states. If you care about your retirement and you don't want to worry about your money, the Financial Enhancement Group is right for you as fiduciaries. They are required by law to treat your money as if it were their own and they were in the same situation. Call (800) 928-4001 or go to your [lifeafterwork.com](http://lifeafterwork.com).*

*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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