Consider This Program

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On This Show:

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

Ken Dilger: Former Tight End at Indianapolis Colts, Senior Loan Officer at Milestone

Angi Kinser: Event Coordinator at Financial Enhancement Group

Show Notes:

Topics Include:

- Tax Code Changes
- Long Term Care
- Places to Retire
- Avoiding Silo Thinking

Tax Code Changes

When there is a change in the tax code, everybody knows there will be more changes to come.

Here's the deal between sunsetting and permanent:

A sunsetting CAT tax code is one that they have to vote to keep. A permanent tax code is one that they have to vote to pull out. When they made the major change in 2017, the change was made that decreased the marginal tax brackets, increased the standard deduction, and increased the federal estate tax code, and will sunset December 31, 2025. There are things that you need to be aware of as we start to go into that period of time, things that you need to pay attention to.

Here's the number one thing you need to understand in central Indiana.

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1. Let's say a couple make $100,000 a year between the two of them. There's the standard deduction for people under 65. So they'll have a $24,000 deduction. That means that we're going to pay taxes on $76,000.

Our tax code is a progressive tax code, which means the more money you make, the more money you pay taxes on and the higher percentage of taxes you pay.

We all have some money that's taxed at 10%, and then we take that next stair step up. There's two parts: one's the state, one's income tax. The 10% bracket existed in 2017 and it'll go back to 10%. That's not changed. You used to take a 50% jump though. You would go from 10% to 15% tax. Married filing jointly, that's up around $80,000. You've had about $19,000 that's taxed at 10% and then you take that next step on every dollar you make more than $19,000. It's a little bit more than that, but we'll call it $19,000. Every dollar above that, you're going to take a 50% jump on what you pay in taxes. When we revert back, you're going to go to 15%. That is a 20% increase. The difference is in 2025, that will become a 15% bracket.

Here's what you need to do: Figure out how much income you can recognize and stay inside of that 12% bracket. At the Financial Enhancement Group, we call it bracket bumping. With bracket bumping, we're going to figure out how much money you need to maintain your standard of living. The second part of the equation is: how much do you already have coming in that you can't stop? We call those mailbox checks. If you're already getting Social Security, rental income, farm income or income from any other source, how much is already coming in? How much money do you need extra to maintain your standard of living?

Long Term Care

I'm not sure if there's anything more scary than watching a family member have to go to a nursing home and especially, losing their nest egg because of elder care expense. There are a lot of people who are able to stay at home now, with home health care as opposed to going into nursing facilities. Many of you will wait for a trigger or a transitionary event to come to us. What happens most of the time, when long term care insurance is purchased, is somebody in your life is going through all of their assets. It's a trigger. It's a fear. It's a scare tactic.

There are only four things that you can do about risk. Let's pretend we're talking about my Harley and I want to take a bike ride. It's October and there's wet leaves on the ground. What are the four choices that I can make?

1. Insure it. I can buy life insurance or in this case: I can buy insurance to protect my Harley. Why can I buy that insurance? Because the majority of the time, I'm not going to have an accident.
2. Avoid risk. I can not ride. I can leave it in the garage.
3. Retain the risk. I can say, “heck with it, I'm going to go out and I'm going to ride.”
4. Reduce the risk. I can put on a helmet.

Not everything that's a risk is insurable. Part of the problem with long term care insurance is the presumption that most people need it. The insurance companies were betting that by the time you got to use it, you would cancel it. Where did that come from? Most of these insurance products were underwritten. They used people in the insurance industry that had experience with long term contracts. Most people die without them the average life insurance policy. Even though they've bought so many, because you bought life insurance for other people. If I die, the life insurance did me no good. I bought the policies for my kids. I did not buy them for me. So most people end up canceling them.

If I bought a long term care policy, who did I buy it for? I don't want to be dependent on my children. I don't want to go through all of my money. I bought it for myself. So, they didn't get canceled. I'm not telling you if you have a long term care policy, to go out and cancel it. Some of those policies that were written are incredible.

Understand that your rates can indeed go up and many times do go up. Long term care is usually something you're going to use out into the future, so you want to make sure your financial plan considers that, not just in terms of where we are today.

Places to Retire

How is residency determined if you live 50/50 in each state?

In 2017, with the major tax change, one of the deductions that was eliminated or capped was the state, local, and property tax (SALT Tax). It's not as simple as living six months and a day in a state. If you go on the internet, that's the standard rule: you live six months and a day there, get a driver's license, get your voter registration, a utility bill and you're good to go.

There's a difference between being a snowbird and wanting to go down South for the warmth. There's a difference between that and a state you would want to retire in. Health is another reason because weather's directly linked with a rise in heart attacks for older people in the wintertime.

It's really the best place to retire. There's other considerations besides the weather and your health like income tax or state taxes.

5 Best Places to Retire

1. Florida
2. South Dakota
3. Iowa
4. South Carolina
5. Tennessee

Avoiding Silo Thinking

There are two different types of tax deductions you can take. One is the standard deduction that everybody gets based on your age. One is an itemized deduction that you get based on what you actually spent over the course of the year. People are faced with financial challenges all the time. When do I take social security? Do I buy or lease a home? Do I move to Florida or Texas or do I stay put in Indiana? Do I just use VRBO and Airbnb and go down there for three months and then come back home? Which account do I pull money out of? How much can I take without running out? Those are questions that our families commonly have to answer.

When you're making a silo decision, you're only looking at one thing. Your eyes will automatically go to the headlines that match what you want to read. I can convince anybody of things that they already believe to be true.

The mind is so hard to change when they already believe this to be true. People try to find stuff to justify that one decision. What you really need to understand is you're operating with an entire farm operation. You've got multiple silos: beans, corn, cows, pigs.

The tax code is the same way. Most people take the standard deduction and they move along. It's fair to itemize one year and take the standard deduction the next. We help people learn to double stack.

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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