KEEN ON RETIREMENT

# Listener Questions: Revisiting the Trump Economic Plan

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody and welcome back to Keen On Retirement. I am your cohost, Steven Sanduski and joining me today is Bill Keen and Matt Wilson. We got another great show lined up today. Hey guys! How are things today?

Bill Keen: We're doing well, Steve. Good afternoon. Good to be back on with you, here.

Steve Sanduski: It certainly is. Matt, how are things in your corner?

Matt Wilson: Things are going great. Enjoying the nice Spring weather here in Kansas City.

Steve Sanduski: Excellent. Well guys, we are going to talk about some listener questions today. As always, you guys are spending a lot of time meeting with your clients. You get a lot of questions so we're going to go through a few of those today and I think they're going to revolve a little bit around taxes to some extent.

Matt Wilson: True.

Steve Sanduski: Just recently President Trump and the Administration released an outline of what they want their new tax plan to look like. We're going to dig into that a little bit. I thought we'd start off today since we're going to be talking about taxes with a couple of tax trivia questions. You guys read for that?

Bill Keen: Oh my goodness, Steve. I thought tax season was behind us now. We all had til April 18th, right? To pay our taxes and file. Except for the people that have extended, but, I thought we took a big collective breath now that that was mostly behind us. Here, Matt, he's going to try and keep it front and center here. Of course, President Trump is, as well.

Matt Wilson: Yeah, I love a good tax question.

Steve Sanduski: All right.

Bill Keen: Okay.

Steve Sanduski: Yeah, well yeah, tax season technically is over and we've all paid our dues, so to speak. Yeah, so here's a couple. The first one is the IRS in 2013 collected almost $3 trillion dollars in revenue. Of course, their revenue comes right out of our pocket. They processed over 240 million tax returns and they doled out $364 billion in refunds. Okay, so those are just kind of some interesting stats here.

Bill Keen: Hey, I'm taking notes, here. I'm trying to make some rhyme or reason of this.

Steve Sanduski: Okay, so here's the question. How much do you think it cost the government to actually collect $100 in tax revenue? Basically, kind of, their cost of revenue. What were their expenses to collect $100, for ever $100 of revenue? This is multiple choice, okay?

Matt Wilson: Okay.

Bill Keen: Oh, wow, good. I had a number in mind, but -

Steve Sanduski: Well, tell me your number, Bill.

Bill Keen: Well, it's kind of, now I'm leading with the chin here. I didn't get all the information, but, my number was $10 per $100, so 10%. Go ahead, go ahead.

Matt Wilson: Yeah, I was going to say 5%.

Steve Sanduski: Okay, well Bill ...

Bill Keen: Yeah.

Steve Sanduski: ... A is $10.

Bill Keen: Okay.

Steve Sanduski: We got four choices here. A is $10, B is $2.45, C is 41 cents and D is 89 cents.

Matt Wilson: Wow.

Bill Keen: Oh wow.

Steve Sanduski: We got $10, $2.45, 41 cents and 89 cents.

Bill Keen: My A guess, my $10 is kind of the outlier there, isn't it?

Matt Wilson: Yeah.

Bill Keen: I'm going to stick with my answer because that's what I started with.

Matt Wilson: Yeah, I'm going to say D at 89 cents.

Automated voice: No!

Steve Sanduski: Sorry guys, the correct answer is C, 41 cents.

Matt Wilson: 41 cents, wow.

Bill Keen: Oh my goodness.

Steve Sanduski: Yeah, so that's pretty efficient.

Matt Wilson: I was going to say, none of us are giving credit to the government for being very efficient, are we?

Steve Sanduski: Well, they are on collecting taxes. All right, here's the second question. The three largest federal government expenditures are retirement funding, which would be things like Social Security and Medicare, National Defense and Social Programs. Now, let's move to the State level. At the State level, what is the single largest expenditure? Is it A, public assistance? B, transportation? C, elementary, secondary and higher education or D, Medicaid?

Matt Wilson: Well, considering I know what my real estate property taxes are and what they go towards, I'm going to go with C on the education expenses.

Bill Keen: Yeah, I believe that would not be the one. I would go with medical. D, please.

Automated voice: Yes!

Oh, cha ching!

Bill Keen: Okay, very good.

Matt Wilson: Yeah. Well, considering the roads out here in Kansas I figured they aren't spending very much money on those.

Bill Keen: Well, I'm kind of embarrassed about that $10 answer earlier. I really, that shows a real lack of confidence in the efficiency of the government. You know I don't like bureaucracy, Steve.

Steve Sanduski: I do.

Bill Keen: You know that, you know that for years, don't you.

Steve Sanduski: Yeah, yeah. You should be proud of our government and how they collect taxes.

Bill Keen: Well -

Steve Sanduski: Especially your taxes, Bill.

Bill Keen: Yes, exactly.

Matt Wilson: You know, technology has probably definitely improved that process with how electronic everything is now.

Bill Keen: Yeah, well, remember our podcast from a few episodes ago where Steve brought up how many errors were made from people doing their taxes by hand compared to how many errors were made by the turbo taxes of the the world or things that are electronically filed. It was substantially less, wasn't it Steve? Almost nothing.

Steve Sanduski: Yeah, oh it was dramatically less. A very good percentage of the tax returns now are filed electronically, so that, of course, dramatically increases the efficiency of the government in collecting those taxes. Yeah, that's all good.

Hey guys, let's jump into some questions here. Maybe, actually, why don't we start off with 401k's.

Bill Keen: Okay.

Steve Sanduski: I know there's been some talk here at the government level about maybe doing something different with our 401k plans, which if this goes through, this could be pretty significant.

Bill Keen: Well, you know, 401k's as we remember, I'm 48 years old and I don't remember a time when there wasn't a 401k. We were in a meeting recently with some clients that were in their mid 60s. They of course remember the time that there wasn't 401k's as we know them today, but for most of the younger workers in this generation never knew a time without these savings tools. We've talked in the past, very few people are on track to have money saved for retirement. When we talk about at least having a tax deduction going into a traditional 401k, and then having the resources grow tax deferred over time and then hopefully there's a match of some kind. Those can be very attracting to at least stimulate folks to take the time to pay themselves first and get that seed planted for their future.

Recently we've seen that 401k's may come under attack now and it's, the question that we received recently was should we not participate in the 401k anymore and can the government at some point just take our 401k's away from us? I don't think that will happen, but there has been some things going around right now that have been cause for concern.

Matt Wilson: Recently, the Whitehouse National Economic Council, they discussed some ideas that would remove the pretax benefits from retirement accounts including 401k's and shift them to after tax benefits. You know, the reason they're talking about it is they need to generate more tax revenue or at least cover some of the budgets short falls. Taxing retirement plan contributions would generate roughly 1.5 trillion dollars over the next decade in additional tax revenue. That is a big pot of money that they would like to get their hands on.

Bill Keen: Are we talking about having that money then go into retirement accounts or 401k's or qualified accounts as then Roth accounts so that it's essentially forcing people to make Roth contributions? Then is that money not taxed later is it? Is that what they're talking about?

Matt Wilson: There's been a few ideas that have been discussed around it whether it is they just tax them and they go in there as essentially Roth contributions or they get taxed, go in there and then have some other tax assessed later on. There's a lot of moving parts to this and the Whitehouse has just briefly discussed it and it's caught a little bit of attention here in the media just because the 401k is essentially the only retirement savings tool that Americans have. I mean, pensions, for the most part, don't exist for new employees. This would be a big hit to retirees.

Bill Keen: This reminds me of when they allowed any income earner to convert their IRA to a Roth IRA a number of years ago. Do you remember how that was phased out for quite a while? If you made over a certain amount you couldn't convert your IRA to a Roth but then, what was it, six or eight years ago they said hey, you can convert as much as you want because that'll be taxes today. We don't care that we don't get taxes ever again on that money, we're going to get some taxes accelerated today.

I remember several other big brokers were telling everybody to come cash everything in. All their IRA's convert them to Roth's. It was an interesting time across the board, but this reminds me of that. It's like hey, we want our tax money now. We don't care if your money grows tax free forever in that Roth account. It'll be interesting to see how this thing plays out.

Matt Wilson: Yeah, yeah. It will. Trump's proposals that came out, you know, we've seen kind of they're very new and they're going to change a lot. I think the gist of it is his attempt to stimulate growth in the economy. The Congressional Budget Office, they're the ones who come up with estimates and they're coming up with a 1.9% growth rate over the next 30 years and if we can bump that up to 3% that's an extra 13 trillion dollars that'll be in the economy over the next 30 years which would generate 2.5 trillion dollars in additional tax revenue just by growth. That's way more than any tax increase could ever generate.

Bill Keen: Right, right. Well, that's what we're banking on it looks like here.

Matt Wilson: We'll see, that's for sure.

Bill Keen: Steve, if you had the choice, putting you on the spot now, would you rather have a pretax retirement account or would you rather say hey, let's put everything in after tax but have it just be tax free forever? That's my first question and then also remember our blog we wrote about you think the government would overturn their tax-free status of Roth's and we kind of addressed that. We don't think they would do that. Assuming they leave it alone which would you rather have?

Steve Sanduski: Well, I like getting the tax break today, so I like the 401k's and the IRA's where we can make a contribution today on a pretax basis and then let it grow on a tax deferred basis over time and then pay taxes when we pull it out down the road. In many cases, people will be in a lower tax bracket when they take their money out during retirement years. I would be shocked and disappointed if the government did decide to get rid of the tax favored status of 401k's. I think that would be a huge blow to savers all over the country. I'd be surprised if they did that but you never know.

Bill Keen: Yeah. Let me throw another wrinkle in this issue we're talking about now. Here's another proposal that you're not going to like, Steve. Even a bigger threat could come if the gains in your 401k, instead of being tax deferred, not taxed until you pull the money out at some point over time, one proposal would impose a 15% tax annually on the gains in the 401k. Could you imagine that?

Steve Sanduski: No.

Bill Keen: You have this money that's typically tax deferred and you're having to value it and they would take 15% of your gains out of it every year. Now, here's their theory. No, I know, that sounds crazy but here's the theory. If all these tax reforms go into play and we haven't got to this yet in our talk today and we will, but if truly corporate tax rates come down from some of the highest in the world to some of the lowest, that should create, now this is their justification on this proposal. It would create more value in corporations which would give us way more growth in our 401k so we shouldn't be upset about having to turn over 15% of it a year back to the government in tax. All right? That's starting to sound crazy.

You'd be better off having just after tax money. I mean, in an after-tax account you buy a stock and you don't pay tax on it until you sell it at a 15% cap gains rate. You'd be better off with an after tax account.

Matt Wilson: Yeah, that proposal would just kill 401k's at that point.

Bill Keen: I'm afraid so.

Steve Sanduski: Well, the way I look at it a bird in the hand is worth two in the bush. I know today with a 401k I get a, make a contribution or an IRA, I make a contribution and I get to reduce my taxable income and that is hard cash savings in my pocket. Versus, if you take that away and say oh, if we do this the economy's going to grow, companies are going to grow faster, stock prices are going to go up, companies are going to hire more people, they're going to pay people more so that'll give you more money, I'm not buying that at all.

Bill Keen: Okay. Aw, man, you're hard.

Matt Wilson: Actually, I ran some numbers on that, too. We share this a lot, we meet with a lot of children of clients and talk to them about what they should be investing in whether it's pretax, after tax Roth inside their 401k's ...

Bill Keen: That's right.

Matt Wilson: ... and I ran this sample and I said to somebody who was 30 years old and for the next, til they're age 65, so the next 35 years, they're going to invest $5,000 a year and they're going to make 8% on that investment. I just said okay, well what would it be worth at age 65? Whether it was tax deferred or it was pretax and assuming they paid 25% federal tax on it and 5% state. Their $5,000 annual contribution over the next 35 years would be worth almost 1.2 million in an IRA or a 401k and only $750,000 in after tax money.

Bill Keen: That's a big difference. These are questions that come up that are super important that are on people's minds so that's the purpose of our podcast here is to just bring our current thinking to our listeners.

We have one fellow who's very smart, very astute CPA himself and he has chosen to do everything in a Roth 401k, Steve. Now this is somebody who completely understands the situation. His theory was this, I'm going to go ahead and pay the tax now, put everything in the Roth and just know I have this big pool of tax free money accumulating forever. It's not necessarily mathematically correct, but he's saying we would end up spending the money anyway. I'm just paying the tax now.

See, a lot of these decisions, it's not necessarily about what the spreadsheet says is right. There's a whole lot of human factors and emotions involved, as well.

Steve Sanduski: And I think that's a key point, Bill, that we know what the correct mathematical answer is but that's not necessarily always the best answer for any particular client just for the reasons that you said that there could be emotional reasons, there could be other peace of mind reasons that someone might want something today versus some tax savings that might actually be better for them in the future. That's where a fiduciary advisor, like you and Matt are, come into play where you guys can look at the math and say here's what makes the best sense from a mathematical standpoint, but let's talk about some other issues that may or may not make this the best decision for your particular situation.

Matt Wilson: Yeah, we talk about that even on the investment side, too. The best investment strategy, it's the one you can stick to. That's an emotional decision as well as a financial decision.

Bill Keen: That is so true.

Steve Sanduski: Well hey guys, let's take a look at the tax plan that just came out from the Trump Administration. I don't know, Bill or Matt, you guys want to take a look at what some of these numbers are that they've come out with?

Matt Wilson: Yeah, I got a little rundown on, specifically on the income tax brackets. Now, I don't have the actual dollar amounts that they'd be phased in at, but we're seeing that the top rate would go from 39.6 down to 35 and then the lower rate would be 25, I'm sorry, the middle rate 25% and then 10% for the lowest rate. It'd just be three brackets.

Matt Wilson: Also I'm seeing that they would double the standard deduction. Right now for an individual it's $6350 per year and for a married couple $12,700 so they would double that amount.

Steve Sanduski: But along with that they would eliminate all of our tax deductions with only a handful of exceptions including the super popular mortgage interest deduction and the charitable contribution deduction.

Matt Wilson: Yep. Yeah.

Bill Keen: That's right. That would be an absolute body blow if they eliminated the deduction to charities. Could you imagine? I mean, talk about a nonstarter there. You know, there was a time back in history where credit card interest of any kind was deductible. Do you remember that, Steve? Credit card interest. Consumer debt.

Steve Sanduski: Yeah, I don't recall specifically, but yeah. That's where the government is encouraging you to rack up credit card debt.

Matt Wilson: Yeah, yeah.

Bill Keen: Maybe stimulate the economy.

Matt Wilson: Wasn't that all part of the Regan, I think, tax adjustments that he made back in the 80s, I think, was getting rid of all of that.

Bill Keen: Yes, I believe so. Well, they want to grow the economy, create millions of jobs. Now, they're saying provide tax relief to the American families, especially middle income families and then also lower the business tax rate from one of the highest in the world to one of the lowest in the world

Bill Keen: The other thing, too, coming across is this onetime tax on trillions of dollars being held overseas. It's common referred to, if you've been watching the news, this repatriation concept.

Matt Wilson: Mm-hmm (affirmative).

Bill Keen: We'll be looking for further clarity on what might happen there to get that money back over into our economy here moving around. I know it's easy to say my goodness, this all sounds great but how the heck are we going to pay for it and there's got to be a lot of faith in this process. Steve, to your point, all these dominoes have to fall correctly to be able to pay for all this stuff. I do believe, because we see it. We see it as we watch markets, we watch our standards of living, we watch world poverty over the last 100 years go down substantially, even though the news is focused on the craziness. It puts all those things right in front of our face to just think of your own standard of living. I mean, don't listen to the pundits on TV, think of your own standard of living.

The standard of living that we're seeing today because of technology and the advancements, it equals earnings and that equals higher stock prices around the world. I'm trying to take a positive look at what we have going on. I'm cautiously optimistic.

Matt Wilson: Yeah, and I think, the growth of our GDP and our economy is definitely more powerful than just raising taxes. To your point, Bill too, productivity in the future should just surge with improvements in robotics and artificial intelligence and automation. I mean, that should make our businesses much more productive and run more efficiently.

Bill Keen: That's right.

Steve Sanduski: To your point there, Matt, there's a couple of interesting factors. You talk about productivity, that is such a key to improving people's standards of living. In the past 5-10 years, the rate of productivity growth has slowed dramatically. That's one of the problems with the economy today and how wages have been stagnant for a good percentage of the population is that productivity has not been growing like it was up in say in the 1990's, early 2000's. If we can kickstart productivity growth that could be huge.

On the other hand, if we are getting more done per person then that might mean we need fewer people to do these jobs. There's some kind of counter balancing factors that go along there, but one thing, talk about your optimism Bill, one thing we have found through history is that the economy has a way of balancing itself. While there may be shocks to the system, like the economic crisis we had back in 2008-2009, the economy does find a way to mend itself.

We're doing pretty well, overall, as an economy today compared to where we were say nine years ago. The economy is a really good self-correcting balancing mechanism over time.

Bill Keen: Steve and I were just out in Newport Beach this last weekend at one of our Summits that we attend, kind of a think tank group of best practices and like minded, forward looking thinkers. Remember, one of the speakers, Steve, talked all about these major brands. Call it Blockbuster, call it Eastman Kodak, other firms that were slow to change and they're no longer existent anymore, but you look at some of those companies and some of those jobs that are basically disrupted out of business. Now, I'm looking at data here that tells me that there are now 12 million mobile app developers worldwide.

Old jobs go away but new ones, in mass, get created. It's just, if you're one of the ones that get eliminated that's pretty difficult to deal with. If you step back and take a look at it you see what's happened. It happened with vinyl records, the carborator, we could go down the list over time.

Steve Sanduski: Yeah, and the key is being able to keep up your job skills, so, as you say, years ago there was no such thing as an apps developer and so, if you happen to lose your job are you going to retrain as an app developer because that's where the growth is. That, I think is, that's part of the whole rebalancing mechanism of the economy as old jobs go out and new jobs come in sometimes what we find, though, is that the technology and innovation moves faster than peoples ability to retrain themselves and get set up for the new jobs. That's all part of the balancing mechanism.

I find it was also interesting that I know that speaker that you're talking about, Bill, at the conference. One of the comments that he made that I thought was really interesting was he said as you look at companies like Blockbuster that's no longer here or Borders Bookstore that's no longer here. His comment was he said, "It's not that these companies did the wrong thing. It's that they did the right thing too long."

Bill Keen: Mm-hmm (affirmative), yes.

Steve Sanduski: Essentially, they had a good thing going and they just tried to milk that cow for too long and they didn't make the innovation that they needed to see what was coming around the corner. They just did the right thing too long and I thought that was kind of an interesting observation. I think it's a good lesson for all of us that whatever it is that we're doing, whether it's business or otherwise, that a lot of things have a life cycle. If we are insightful enough and keep our eyes open enough to realize when something that we're doing may have run its course that it's time to move on to something new. I think that's an important thing for us to keep our eyes and ears open for.

Matt Wilson: When we look at businesses, to your point, it's not the strongest businesses that survive long term, it's the ones that are most willing to adapt to the environment. That's what Kodak did. They refused to adapt to digital technology and they don't exist anymore.

Steve Sanduski: Of course, we all know who invented the digital camera, right? Back in the mid 1970's? It was Kodak. They wanted to milk that cash cow which was film and so here they are today. Yeah, well hey guys, I know we got maybe one or two questions we might have time to take here. One of them is you hear a lot from your clients about this term fiduciary. We hear a lot about it in the press and yet, there still seems to be a fair amount of confusion out there about what it means to be a fiduciary financial advisor. Bill, why don't you tell us a little bit about that. What does that mean?

Bill Keen: Well, most Americans are still unclear about what it means to be a fiduciary financial advisor. There was a survey that recently was issued by financial engines. Two out of five say that they would leave their advisor if they learned that they were not a fiduciary. You know, we've done a whole entire episode on this process. At Keen Wealth, here, we are fiduciaries when we make an investment recommendation or give advice to our clients. We do it in the context of what's in their best interest, not what's in our best interest.

Stock broker or an insurance agent does not operate to the fiduciary standards under those arrangements. They are essentially representing the house. The house always wins. They're representing their best interest, not the clients best interest. They're only required to do what's "suitable" for the client.

Matt Wilson: Yeah, for us, people ask us how do I know if my current advisor is a fiduciary or not? There's some things that you can do. You can just straight up ask them are you a fiduciary and you can take that response from them. Ask them to put it in writing or point to in their paperwork to where it states that they are acting as a fiduciary for you. Also, ask them how they're compensated because fiduciary advisors have to put your best interest first. You want to make sure that they're not conflicted by a compensation arrangement that might encourage the advisor to steer you into investments that are more profitable for the advisor or for the firm or company that they work for. Understanding, do they charge a fee or is there a commission involved. That'll tell you if they're a fiduciary or not because if there's commissions involved then most likely they're not acting as a fiduciary at that point.

Bill Keen: Specifically asking, though Matt, is there kickbacks or compensation that I'm not seeing on the outset. Asking always, what are my total cost of investments not just what's your fee. Again, we've talked about that in prior episodes, but it's so important. Keeping fees at a minimum is a huge determinant of long term success and what you accumulate over a lifetime. Just because a fee is hidden or you're not able to see it on your statement, it doesn't mean that it's not there, so asking about those things and getting real clarity of what your total cost is, the headwind of the cost of your portfolios is a very, very big deal.

Matt Wilson: Yeah, no, that's right. Even asking your advisor do you have a client agreement. Because, this was interesting, I just learned this. We have client agreements here at Keen Wealth that details the scope of the relationship, what the fee structure is to utilize Keen Wealth Advisors. What our duties are as a fiduciary. We line that all out in our client agreement. But the Investment Advisors Act of 1940, which is the law that regulates investment advisors, does not require a client agreement. Not all advisors may not have a client agreement and so some of these things may not be as clear to you if you don't have that spelled out.

Bill Keen: Yeah, I think getting things in writing is no question essential. We deal with quite a few engineers. We've shared with you in the past, Steve. Yes, they hold us to a high standard, they do, but we're glad to be able to operate to that standard for those folks and having things in writing and detailed up front, like Matt said, scope of work and engagement is really the starting point. Very important.

Steve Sanduski: Excellent. Good, well, do we have time for one more question, Bill?

Bill Keen: Yeah, let's do. You gave me a little bit of insight into it about the life insurance and so I'll let you go through it, rapid fire it at us, we'll rapid fire back at you and it'll be a great way to close out our episode today.

Steve Sanduski: Okay, so we've got a scenario here where someone is 65 years old, they're about to retire. They have term insurance through their work that is going to go away when they retire. They have an old whole life policy, whole life insurance policy with a $100,000 face amount and about a $22,000 cash value. Let's say you called the insurance carrier and they said that the policy is paid up, which means that you don't have to make premiums anymore. One question is do I need to keep this insurance in place? In this particular scenario the person is married and the couple are both in good health. They take no medications except for small doses of statins like most of their coworkers.

Bill Keen: I know what company this is, Matt.

Steve Sanduski: Do ya? They have 2.6 million in liquid assets. They have about $40,000 total in Social Security income between the husband and the wife. They need about $7,000 per month to live on comfortably and they have no debt. They have kids but both kids are professionals and self sufficient. That's the scenario, guys. What do you think?

Bill Keen: There's a lot of information Steve just shared with us, but I've got some key information here that I keyed on. One was the fact that they have 2.6 million dollars of liquid assets. What was not disclosed here was how that money was invested. Assuming that it's invested in a, even if it was a 50/50 stock to bond mix and it was adequately invested, sitting in the bank making 1%, now this is a different story. But even if it was making, let's say, 5% as an estimate, well, our typical spending over time we say you can spend 4% of your total. We like that as a number as a starting point. Everybody's different, but that's $104,000 a year off 2.6 million. Plus, their $40,000 of Social Security. That's $144,000 pretax. Well more than enough to generate their 7k per month after taxes with no debt.

The first thing I come up with do they need insurance or not. I'm saying based on this brief bit of information that they don't need insurance anymore. Matt, I'll let you take that.

Matt Wilson: Yeah, no, I agree. Just looking at it from the high level there. The younger you are the more insurance you need because you have life ahead of you, you might have small children and you need to account for some of these things. Typically, if you've done a good job saving and investing for retirement keeping debt under control, you're not going to need insurance, then, to cover you if something were to happen and fund a lifestyle change for your surviving spouse.

In this case, they've done that. They've set themselves up to not need any life insurance. Generally, those whole life policies will overcharge you on the premiums and then refund a portion of the premium and that builds up in the cash value.

Bill Keen: Which is, actually they call that a dividend, right? We don't want you to get into that today, but they call those basically refund of overcharge of premiums a dividend.

Matt Wilson: That's right. On mutual companies typically that's what they call those dividends there. That cash value builds up. Some of these insurance agents will position them as investment vehicles and we're not big fans of insurance as investment vehicles. We want to buy term insurance and invest the difference in a more efficient manner. This policy, this cash value builds up and eventually what happens as you age, the insurance cost inside the policy, they continue to rise because as you get older the actuaries for the insurance company knows this thing's going to have to pay out sooner than later. They're going to offset their risk with increasing those premium payments and eventually that will eat into that cash value.

We can actually get some illustrations from the insurance company as to when that will happen because they can project that out, and then we can look at it and say okay, well, if we were to cash this in and take the cash value, what's the tax consequences? Because, there is ordinary income tax on any gain inside the insurance policy and then you get a return of principle for your premium payments over the years. A portion of it's tax free. Another portion of it is taxed as ordinary income. Depending on the timing of retirement and what income needs are, we'll factor that into the overall tax planning and distribution planning as to when to take out that cash value and terminate that whole life policy.

Bill Keen: The other thing is, and congratulations to these folks who have kids that are both professionals and are very self sufficient. It's not the story that we hear all the time, so that's a very positive factor. If there was some estate goal that they wanted to carry this it would be one thing, but at this point, I think all things for us point to this couple not needing life insurance or this policy at this time.

Matt Wilson: Mm-hmm (affirmative).

Steve Sanduski: Well, Bill, I wish the listeners could see what I see. I've got you on camera, I can't see Matt because he doesn't have a camera on, but as I was going through that scenario you had your head down, you had your calculator, you had your pencil and piece of paper there, you're taking notes, you're scratching stuff out on the calculator. I mean, your heads down really serious about this stuff. I mean, that's just an example of how you work with your clients and you really, you know, you go through the numbers on these things and figure out what makes sense. As we talked about earlier, in this particular scenario you said, "Well, this person probably doesn't need to have insurance because they've got some liquid assets to cover what they may need." I wouldn't be surprised if you do have some clients, when you say that, they may say, "Well, I still might like to have long term care insurance or I might still like to have an insurance policy because I may want it to fund something else when I pass away." That gets back to here's the numerical answer, but there may be an emotional answer that could be different.

Bill Keen: That's right, and you know, we didn't hit on this. They did say they were in good health except for a small dose of statins, if someone was maybe not in good health and it was life expectancies were way shorter that would make a big difference in our advice here. You know, for us, it's always about getting conscious of the facts, looking at things and helping people make educated decisions. It's just, you cannot wing this stuff, Steve. You've got to get down, look at the numbers, evaluate everything and I always say get with a good, solid fiduciary advisor that you trust, that you know, that you respect, who's walking the walk themselves, that can advise you on these things and see around corners that you can't see around and that understand things that you might not think about proactively.

I think that's a really good way to wrap our show today, Steve.

Steve Sanduski: I do too, but hey, let's leave it on a little lighter note here.

Bill Keen: Okay.

Steve Sanduski: I hear Nordstrom is come out with a new type of jeans.

Bill Keen: Yes.

Steve Sanduski: Did you hear about that?

Bill Keen: I saw that, too. One thing we would say is heck, if they can sell these things more power to them, right?

Steve Sanduski: That's capitalism.

Bill Keen: For the low, low price of $425 a pair, you can get a pair of jeans from Nordstrom that is covered in fake mud. How about that?

Steve Sanduski: Fake mud. I can get some real mud pretty easily around here.

Matt Wilson: Yeah.

Bill Keen: Right, right. In a description of the pants the company says they quote, "Embody rugged Americana work wear that's seen some hard working action and that when worn they show you that you're not afraid to get down and dirty." I saw several commentators out there on the news and this fellow, Mike Rowe, posted about them on his website saying that Nordstrom jeans were proof of our countries war on work and that they're a costume for wealthy people who see work as ironic, not iconic. Jeans that make you look like you work hard so you don't have to. We try not to promote this. We all want our kids, we talk about this all the time with our own and with our clients' children, we don't want to rob them of the opportunity to work hard and make it on their own like most of us had to. We certainly don't want our kids buying these jeans who "are for the kids who inherit the millions of dollars. The kid who doesn't want to work hard and wants to go into Nordstrom and pay a lot of money and act like they work."

Matt Wilson: Now, isn't Nordstrom known for their pretty liberal return policy?

Bill Keen: I think you can return about anything.

Matt Wilson: Yeah, so I'm thinking some people might show up with some dirty jeans and get $425 for them in return, maybe. That could be a new market for somebody.

Bill Keen: Oh, I'm sure they've seen it all over there.

Steve Sanduski: Yeah, well there's that old story that motivational speakers would tell about service and they would use Nordstrom as an example. They tell the story about how a person went to Nordstrom one time and they wanted to return a couple of car tires because they just weren't performing well and so they take the car tires to Nordstrom and say, "Well, I'd like to return these." The clerk was a little confused looking at him and said, "Well, okay." Nordstrom took the tires and whatever and paid them some money. Well, obviously, Nordstrom doesn't sell tires and so that's kind of an old story about customer service.

Then I'm not going to get this exactly right, but supposedly, and maybe this is one of those old urban legends about Nordstrom, but their service policy or operations manual just basically has one sentence in it that says something like, "Take care of the customer."

Matt Wilson: Yeah. I've heard that, or use good judgment, I think I saw.

Steve Sanduski: Something like that.

Matt Wilson: Yeah, yeah, interesting. Well, maybe these jeans are a return and they're just trying to sell them to somebody else.

Bill Keen: Right?

Steve Sanduski: Like taking away the tax benefits of 401k plans, I think these fake, caked on mud jeans are a bad idea, as well.

Matt Wilson: Yeah, I do. Yeah.

Bill Keen: Yeah, exactly.

Steve Sanduski: Well hey guys, another great show. Had some good things, a little trivia in here and some good listener questions and then also wrapped it up here with some fake jeans from Nordstrom. Boy, we really wrapped a lot into this episode.

Bill Keen: Yes, we did. If people are buying jeans for $425 out there, mud on them or not, that should be an indicator the economy is doing pretty well today.

Bill Keen: All right, well hey, we certainly appreciate your engagement with us here and we'll look forward to our next episode.

Steve Sanduski: Sounds great. Hey, thanks guys. Talk to you soon.

Bill Keen: All right.

Matt Wilson: All right. Thank you.