KEEN ON
RETIREMENT

Making the Right Choice When Inheriting an IRA

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hey, everybody. Welcome back to Keen on Retirement. I'm your co-host, Steve Sanduski, and here with me in the studio, Bill Keen and Matt Wilson. Gentlemen, good afternoon.

Bill Keen: Good afternoon, Steve. Grateful to be back on the program with you today, and Matt, thank you for joining us once again.

Matt Wilson: Yes, glad to be here.

Steve Sanduski: It's always a highlight of my day, as well when I get on the horn here with the three of you guys and get another episode of Keen on Retirement. Well, Matt, I know you've got a little bit of information for us today, so we've got another great topic lined up, but before we get to that I think you've got a little bit of history you're going to share with us.

Matt Wilson: I do. I'm a history junkie, and I love studying the financial markets. I read a lot about just what happened in markets on this day or in this timeframe back in the past. Just came across this I thought this was very interesting and kind of relevant to what's happening in the financial markets today with the volatility and helping to put this a little bit in perspective. But 46 years ago in November the Dow crossed above 1000 for the first time.

Steve Sanduski: Oh my goodness. Okay.

Matt Wilson: And we're sitting at around 25000 today on the Dow. 25 times value increase in the last 46 years. And this is what was happening in 1972: 11 athletes from Israel were murdered by a terrorist gunman at the Munich Olympics. Five White House operatives were arrested for breaking into the offices of the Democratic National Committee as part of the scandal known as Watergate. And the average American salary was $11800.

Steve Sanduski: Well, times have changed a little bit. Yeah.

Matt Wilson: They have. And even till that point, and we've talked about this in prior podcasts recently about the feeling that we're in such a tumultuous time now and the political environment is in disarray. I mean, back then we talked about what was happening in the late '60s with the assassination of the president and Martin Luther King, Jr. And we had these Olympians being murdered at the Olympics and we also had the Watergate scandal. Breaking into the offices. I mean, I guess now we're hacking in, so maybe it's not quite a physical thing. We go through these things. The history doesn't repeat itself, but it does rhyme from time to time, and people don't like hearing that, but it is true.

Bill Keen: It is true. And Steve, I'm grateful that Matt today didn't pose that as a quiz to us. Did you notice that? He just gave us the answer.

Steve Sanduski: Yeah.

Bill Keen: We kind of got off easy today.

Steve Sanduski: We did. Yeah, appreciate that. Yes. I know. The check's in the mail.

Matt Wilson: I got a question for you. So, the Dow was first published in 1896. Do you know how many stocks were in the Dow?

Bill Keen: I think it's 10.

Steve Sanduski: I am going to say ... I'm going to take the over on that, Bill.

Matt Wilson: Okay.

Bill Keen: Wait a second.

Matt Wilson: Is this Price is Right? Yeah. 12 stocks in the Dow.

Bill Keen: Okay, well I guess I wasn't right. Steve definitely won. I was still gonna say I was close to right, but Steve was more right.

Steve Sanduski: Okay, so here's one right back at ya, guys. What stock was in that original 12 that either is still in it today or is the one that was in the longest since then?

Matt Wilson: Well, I've got the information, Steve.

Steve Sanduski: Okay. Well, let me tell you what I think it is.

Matt Wilson: Okay.

Steve Sanduski: You can tell me if I'm right. Because I love to ask questions that I think I know the answer, but I'm most curious of other people knowing if they are convicted. Yeah, you're right.

Matt Wilson: Yeah.

Bill Keen: Right.

Steve Sanduski: General Electric.

Matt Wilson: Well, did you know, Steve that they got removed from the Dow.

Steve Sanduski: Okay.

Matt Wilson: So, they're not in it anymore, so none of the original 12 are in there in the Dow.

Steve Sanduski: But I think GE was in it the longest.

Matt Wilson: It was.

Bill Keen: Longest.

Matt Wilson: You were correct. It was in the longest.

Steve Sanduski: Okay. Excellent.

Bill Keen: I was gonna say Procter and Gamble or Exxon, but I think GE was the answer huh?

Matt Wilson: Yeah and it was removed recently, and GE of course has been falling on tough times.

Steve Sanduski: It has, yes. Oh, how the mighty have falling for sure with that one.

Matt Wilson: Yeah.

Steve Sanduski: Well, hey guys, we've got another topic here. Another important topic and I think many of our listeners have heard of what an IRA is. That stands for Individual Retirement Account, but Bill today we're gonna talk about a twist on an IRA that many of us listeners I think will eventually find themselves in this situation.

Bill Keen: I think it makes sense to cover this today because we try to bring topics and issues, and questions, concerns that come up in the firm here to our program. So, folks can tune in and listen to kind of up-to-date things about what's happening and where all the questions are coming from or the topics, and we've been getting a lot of questions recently about what happens when we inherit one of these accounts and whether you are the inheritor, or whether your kids and grandkids inherit your assets in some point down the road.

We've found that a good portion of the wealth that has been built over the years is inside "qualified plans" and that would be a 401K or an ESOP plan, or if you work for a charitable institution or a school. Maybe a 403(b) or the government of 457 plan. These are plans that generally allow you to put money into them pre-tax and then the money grows, tax deferred over time, and then is taxed at some point when you pull the money out to spend that money or to live on that money.

But we also have seen something introduced approximately 20 years ago called the "Roth IRA." And the Roth IRA basically says, "We're not going to give you a tax deduction to get money into these accounts. It's going to be after tax money," but it will be tax-free. The growth, and the interest as thing compound up over the years, there won't be any tax coming out of those accounts. And those are great tools. Most people we find have some of both in their plans, but then the question comes down to what happens to them when someone inherits?

And again, we have clients that are inheriting these assets from their parents now. Even older clients, right?

Matt Wilson: Yeah. Oh yeah.

Bill Keen: Not just clients in their 20s and 30s. Having an episode that's focused on these things I think makes a lot of sense. Steve, we've talked before about this. This can get real granular. We need to keep it interesting and high level, but yet provide information. So, folks can really probably go and seek even more information about there specific information, but I think we can roll through this today in a way that can be pretty eye-opening.

Matt Wilson: That's right. Essentially when you have an individual retirement account or a 401K, you have beneficiary. And you can have two types of beneficiaries.

You can have a spouse or a non-spouse. And the rules are different based on the type of beneficiary.

The other things to take into consideration too are if the account owner has started to take the requirement minimum distributions. That also factors into what your choices are.

Bill Keen: That's right and before we go any further, require minimum distributions that we may refer to these things as "RMDs" through our show today. Basically, you hit 70 1/2 and the IRS is tired of waiting for their tax on that money that they've allowed to grow.

Matt Wilson: They are, yeah.

Bill Keen: Over all these years, so they force you to take a minimum out in the years after you've turned 70 1/2 and thereafter based on a uniform life table. For someone who's turned 70 1/2 lets say this year and they're using the joint life expectancy, the uniform table. Typically, it's about 3.8% or so of the total, Matt.

Matt Wilson: Just under 3.65.

Bill Keen: Okay. If someone has a million dollars, they would need to take out approximately $36500 if they had one million dollars inside of their IRAs collectively at the end of the prior year; 12/31 of the prior year kind of gives folks an idea of what that required minimum distribution is. Once someone turns 90, that goes to up to about 10% of the total. You can kind of extrapolate how that looks over time, but to Matt's point kind of defining what a required minimum distribution is there. But it does have an effect on whether those have been started yet and on how the beneficiary is treated.

Matt Wilson: That's right. Yeah, let's start with scenario one. Your husband passes away. Your spouse passes away, and your spouse was not 70 1/2.

Bill Keen: Okay.

Matt Wilson: You have three options, essentially. You could open what's called an "Inherited IRA." You have to take money out each year based on your life expectancy. And you have to start that within a certain timeframe.

The rule is, the distributions must begin no later than 12/31 of the year after the account holder died. If this just happened today, you have up to 12/31 of 2019 to satisfy this required distribution based on your life expectancy.

Bill Keen: And that's the minimum that you can take, correct?

Matt Wilson: That's the minimum.

Bill Keen: Or that you have to take in that arrangement.

Matt Wilson: That's right. That you have to take and that's if you choose an inherited IRA.

Bill Keen: Okay.

Matt Wilson: Now, why would someone choose an inherited IRA where their second option is to open a traditional IRA or what they call a "spousal IRA," and then just transfer the money into that. 'Cause you have that option, as well. Essentially, you treat the money like it was yours the entire time.

Bill Keen: And we see that the majority of the time probably between spouses, don't we?

Matt Wilson: Majority of the time. In this situation where someone would open an inherited IRA versus a spousal because the spousal, here's the benefit to that. Because it's treated like it was yours the entire time, you don't have to take any money out until you are 70 1/2.

Bill Keen: Mm-hmm (affirmative).

Matt Wilson: But the inherited starts forcing money out within a year essentially after the date of death. The reason someone would choose the inherited is if they're under age 59 1/2.

Bill Keen: Right. They would have access to the funds then without the 10% penalty that most folks are afraid of being hit with.

Matt Wilson: That's right. That's the big thing with these inherited IRAs. They waive the 10% penalty because the IRS is forcing you to take this money out each year.

Bill Keen: Mm-hmm (affirmative).

Matt Wilson: It's nice of them that they don't tack on the extra 10% penalty if you're under age 59 1/2.

Bill Keen: I think it's important to understand too that when we're talking about these required minimum distributions. That's the minimum that has to be taken and taxed, but it's not all that can be taken.

At any time, they can take more or all of the accounts. It's maximum flexibility there in that arrangement.

Matt Wilson: Yeah. The IRS allows you to take out more and the advantage of the IRS is that you're paying income tax on any amount that you take out. Part of even the estate planning process that we're talked about too is you can even control that to some extent with your estate planning documents like a trust. If you're afraid of a beneficiary overspending this money because they do really have full access to it unless you put the estate planning documents in place to maybe restrict it to just this required minimum distribution.

Bill Keen: That's right.

Matt Wilson: Now, we've talked about, okay, your spouse dies, you inherit it, you can take a spousal IRA, which just basically acts like it was your IRA the entire time. You can open up what is an inherited IRA and start distributions based on your life expectancy by the year following the year after the date of death. Let's say you forgot, you didn't know.

Bill Keen: And you did nothing.

Matt Wilson: You did nothing and it's been two years. What happens now? I mean, are you now subject to a bunch of taxes and penalties. The nice thing is, no, but because you missed that window of starting distributions in the year after the date of death you're now subject to the five-year rule.

Bill Keen: So, doing nothing actually you did make a decision, didn't you? So, the five-year states what?

Matt Wilson: So, the five-year rule states that the entire account balance has to be distributed by 12/31 of the fifth year.

Bill Keen: Okay, so on some accounts that would be ... So, on accounts that had large balances that could really force some really onerous tax consequences.

Matt Wilson: That's right. If you forgot, you're now to subject to just this five-year rule. You can take it out now and on up to the fifth year to take the distribution. You can wait completely to the fifth year and take it all at once, as well, but that is the rule.

Steve Sanduski: If you have a million dollars in your IRA and you decide not to take it out within what you just said there. Was it the year in a half after you die?

Matt Wilson: That's right. The inherited IRA rule, Steve it's the 12/31 of the year after the person dies.

Steve Sanduski: Right, so if you miss that date, then it automatically becomes, hey, you gotta take it out within five years now. So, if you have a million dollars and you start taken it out evenly over five years, that's $200000 per year of income that you now have to pay tax on.

Matt Wilson: That's right.

Steve Sanduski: That's huge. I think one of the important things about like you said, Bill here a minute ago, we're throwing a lot of numbers out, but I think one of the key takeaways is if you don't intentionally make decisions you will by default make a decision and that default may cost you a lot in tax money.

Bill Keen: And missed opportunity too for that asset to continue growing and compounding tax deferred. Because if folks get this set up correctly and they don't need to take all the money out or a huge portion of the funds, it essentially can be their own retirement account. Imagine a young beneficiary, someone in their 20s or 30s inherits one of these, as long as they start that required minimum distributions like we talked about. Now I kind of flipped over to someone who is not a spouse there.

Matt Wilson: Yeah. There's kind of a spouse, non-spouse thing that we have to just make a clear indication what we're talking about. You know a spouse could still be a lot younger, and you still have these same rules. You could have a spouse who is significantly younger that if they forgot do something is now subject to this five-year rule.

Even though a non-spousal, that's probably more common, but it's essentially the same rule.

Bill Keen: Now, what about the kid that wants to just take it all out or the spouse?

Matt Wilson: Yeah.

Bill Keen: I guess that's the fourth and final option, right? Go ahead and take it out, and spend all the money anyway.

Matt Wilson: At any time of course it has to happen within the first five years to not be penalized. So, if you don't do it within the first five years, they will say you completely forgot. Now it's year six and beyond. Now you're subject to taxes and penalties.

Bill Keen: I'm laughing because Steve are we confusing you enough yet on our show today?

Steve Sanduski: There's a lot of stuff going back and forth here, that's for sure.

Bill Keen: Right.

Matt Wilson: Yeah and we have a flowchart that we go through when this just happens to people because there is complex and it's okay. Is it spouse, non-spouse? The type of retirement account. Is it an individual retirement account or an IRA? Or is it inside a 401K? Which does happen from time to time. A spouse can inherit it and they can transfer it to themselves inside of the 401K and keep it inside the 401K, but now you're subject to whatever the plan rules allow.

Some plans may not allow you to stretch it out over your lifetime. You might have to take it within five years. You don't have the choice to stretch it out and that's subject to the plan document. I mean, now we're getting even more in the weeds a little bit, but when you have money inside the 401K and you pass away, there's even some different rules that apply at that point, as well.

Bill Keen: A lot of these things you wouldn't think about going out and researching, and understanding if you weren't really, really thinking ahead. So, what would be our next nature order here?

Matt Wilson: Yeah, now let's say ... We talked about spouse that's under age 70 1/2. Now let's say a spouse that passed away was over age 70 1/2. Essentially and you're the spouse, so you inherit the IRA, so you still have option one where you can just transfer it to your IRA or transfer into your name and treat it as your own.

You can open an inherited IRA just as we talked and take distributions over your life expectancy, or you just take a lump sum distribution.

Steve Sanduski: Well, that sounds easy.

Matt Wilson: That one is not as bad. And that is more common. An older person that passes away that's over age 70 1/2. That does happen. That's probably the more common scenario that happens.

Steve Sanduski: Mechanically, when this happens, we have a spouse passes away they've got an IRA or multiple IRAs. If a person is not working with a financial advisor, what do they do? Do they have to call their brokerage firm and handle this all on their own versus when they're working with a firm like Keen Wealth Advisors. Do you guys take care of all this on the behalf of the client? Do you drive the beneficiaries are already set up appropriately? Does everything happen naturally? How does that work operationally when someone passes away?

Matt Wilson: When someone works with us, we handle everything for them. Essentially, what they have to do is just provide us with a death certificate and then at that point we're able to transfer all the assets. Set up all the types of IRAs that need to be set up. 'Cause in some cases, we might have a spousal IRA for a percentage of it and then children or non-spousal beneficiaries for another percentage of it.

We're have different types of IRAs that need to be set up for all the beneficiaries and we're correlate that process on behalf of the client to make sure all this gets done in a timely manner. Because the more this drags out, those windows start to close too.

Steve Sanduski: Right.

Bill Keen: That's right.

Matt Wilson: You wanna make sure this gets processed in a timely manner. Now, if someone isn't working with a financial advisor yes, Steve, yeah it's on their own. They need to contact their custodian and go through all the paperwork and figure out what needs to happen and what the choices are, and how to make that decision. That's not always the easiest process especially at that time when you might've had your spouse just pass away or parent pass away.

Steve Sanduski: Yeah exactly. When you're grieving, the last thing you wanna do is wanna have to worry about, well, what am I gonna do with my individual retirement account? Do I have the right beneficiaries? And I gotta get this paperwork done by certain dates. Yeah, that's the last thing. One of the values of working with a financial advisor is that they can handle all of this paperwork for you.

All right. Let's talk about the next type here I think is, which is a traditional IRA that's inherited, but it's a non-spouse that inherits it. What does that look like?

Matt Wilson: Yeah, essentially it's the same rules, the rules are very similar to the spouse when the spouse inherits it except you don't have that spousal option.

If your parents pass away and you're the sole beneficiary, the only option you have is to open an inherited IRA. If your parents were under age 70 1/2, you have the two rules around. You have to start distributions by 12/31 of the year after the date of death.

Bill Keen: But it's based off your life expectancy.

Matt Wilson: On your life expectancy.

Bill Keen: The minimums would be pretty low depending on your age, of course. The older you are, the less the money they are gonna make you take out each year pay tax on.

Matt Wilson: And you still have that same five-year rule too. If you don't do that within that window, now you're subject to the five-year rule. You also have the lump sum option, as well.

Really when you're a non-spouse beneficiary, the main difference is you just don't have that spousal option that allows you to treat the IRA like it was your own and not have to take any money out until you're 70 1/2. That does not exist.

Steve Sanduski: Hey guys, let me ask you a question here. In a non-spousal IRA where it's inherited, is it most common that you see that the non-spouse inheritor is the children or do they skip a generation, and send it to the grandchildren. And if they send it to the grandchildren and let's say the grandchildren are under 21, first of all, can you even do that? And second of all, then if it's someone that's really young, they might be able to be taken this out over the course of 50 years. And that money can just be growing tax deferred over a long period of time.

Do you see that happening at all or does it mostly go to the children as inheritors?

Matt Wilson: It's most common to see the children as the first contingent beneficiaries essentially after the spouse. And it also depends on the asset base. Depending on how things are structured. If someone has a net worth, and they have half their net worth outside of IRAs, so non-retirement accounts then the other half in retirement accounts, it's more common than to see the IRAs go down to the children's children; the grandchildren.

Bill Keen: For just the reason you mentioned, Steve.

Matt Wilson: Yeah. You have the stretch advantage and then those non-retirement accounts just have that go down to the first generation. It goes down to just the children at that point. It just provides that level of flexibility. To answer your question, if they're under age 18, now what would an estate planning attorney would do was set up a trust to handle those assets for that child if they're under age 18.

They can inherit the money, it's just they're gonna be subject now to the guardianship rules if they're under age 18. And then at 18, they just get the IRA. You wanna make sure you plan for this correctly from an estate planning standpoint, so you know what you're getting into when you do make those decisions.

Bill Keen: Because remember, these are minimums. So, if you leave a large account or any account actually to let's say a grandchild, and they become of age and they have access to it, yes they were set up right, they were taking the minimums out, but at any time they can take all of the money out.

Matt Wilson: All of it.

Bill Keen: If it's not set up in some sort of trust document, which does require some thoughtful estate plans.

Matt Wilson: Yeah, it's gotta be written right to handle that and subject to the right rules, so it's not triggering a bunch of extra tax. Because occasionally a trust document is not written correctly and it can trigger unnecessary taxes too.

Bill Keen: There's been some misconception about what life expectancy that we calculate these required minimum distributions with if you are a non-spouse inheritor, and the person that passed away is over 70 1/2 taking their minimum distributions a lot of people are under the impression that you would have to continue the higher level at the older person's rate. And the reality is, they have to process their required minimum distribution at the level they would have had to in the year that they passed. But once you've got the account and you've inherited the account as a non-spouse beneficiary, it does go by your life expectancy, not the person who passed life expectancy.

Matt Wilson: That's right, yeah. That's a good point you bring up. The percentage or the amount you have to take out is gonna change based on your life expectancy, but there is one little kind of nuance to that, and it's the year the account holder dies. If the account holder dies and they are over age 70 1/2, they have to take a required minimum distribution. Let's say they haven't satisfied that yet and they've passed away, now you as the beneficiary you have to satisfy whatever that amount was.

You have to still process and pay taxes on whatever the person who died should have taken, and that's subject to your income tax. That's taxable to you, not taxable to that person. That's one kind of nuance that happens in the year of death. 'Cause that happens from time to time.

Bill Keen: Mm-hmm (affirmative). Let's talk a little bit about the Roth. How 'bout that? Because Roths have become very popular because of that tax-free nature. Maybe walk us through what happens when someone inherits a Roth.

Steve Sanduski: Well, first of all, lets define again what a Roth is.

Bill Keen: Okay. Okay, so a Roth IRA, and if I recall, I remember being in business probably six or seven years at this point. I believe it was 1998-1998.

Matt Wilson: Yep, 20 years ago.

Bill Keen: Yeah, 20 years. I think we actually mentioned in an episode the Roth 20-year birthday. It was named after a senator.

Matt Wilson: Senator Roth.

Bill Keen: Yeah and it said, "Hey, you can put money in these accounts after taxes by making yearly contributions" and I think this year coming up is $6000 in 2019 you can put in if you have earned income. If you're over 50, an extra 1000. You can get money in a Roth that way, of course it's after tax money going in, no tax deduction upfront. Or you can convert an existing IRA that's pre-tax money over into a Roth, but that triggers tax now on any of the conversion amount. But you say to yourself, let me run through some calculations. We do this all the time in our planning process. Looking that does it make sense to make this conversion.

You look at the tax you have to pay today for getting a certain amount into the Roth, so you never pay taxes on that again. That really in a nutshell, remember IRAs, Roth IRAs, they're just wrappers or barrels. You can put any investment in them. You can put stocks, bonds, CDs, mutual funds inside these accounts, but the question is what's the tax status of these accounts? What's the nature of how things get inherited and how you're forced to take money out of them down the road.

Matt Wilson: Yeah, one big difference too with the Roth, in addition to the tax difference is there is no required minimum distribution on a Roth IRA.

Bill Keen: Why do you think that's the case, Steve?

Steve Sanduski: Why do I think that is the case? Because the taxes have already been paid on it.

Bill Keen: Right. The IRS doesn't get anything for forcing you to take the money out. They're going, "Okay, I guess we're just not force people to take money out."

Matt Wilson: They won't. Yeah. Now and this kind of leads to what happens when someone inherits a Roth IRA. A spouse that inherits a Roth IRA, again, they have four options. Option number one, they can just transfer it to themselves and treat it like they're on, which is great 'cause they never have to take anything out of it, either. No required minimum distributions.

They can also open up an inherited Roth IRA, which in most cases we don't see any reason why someone would do that. A spouse, the spouse should just most likely it always just take the spousal IRA. They could be a certain situation where that makes sense. If they open up an inherited Roth as a spouse, then they have the life expectancy method. Again, it's 12/31 of the year after death and then if you open the inherited Roth, but then don't do it, now you have to take everything out within five years.

Bill Keen: Right. So, now we're talking about the beneficiaries of these accounts having to take the money out. The government's not going to let things just run forever tax-free. They're going to want the beneficiaries of the next generation down to have these accounts basically zeroed out in their lifetimes.

Matt Wilson: Yeah, I mean the spouse can basically treat it as their own, and they continue that tax-free growth for the rest of their life. But then now if a non-spouse inherits a Roth IRA, so the spousal option doesn't exist, so now they have three choices.

They can open up an inherited Roth IRA and start taking money out based on their life expectancy for the rest of their life. If they forget to start doing it within that window, now they're subject to the five-year rule. That's really a big mess. In addition to the traditional IRA because you have the big tax bill, but now you're forced to take all this money out, and you're losing all your tax-free status.

You're not paying income tax on it, but you lost your tax-free growth now for the rest of your life if you forget to start taking those Roth minimum distributions.

Bill Keen: As the beneficiary.

Matt Wilson: Yeah. It's a little bit different in terms of you don't pay any income tax on it, but it is again it's subject to those required minimum distribution rules if you're a beneficiary of Roth IRA, and especially the non-spouse beneficiary.

Bill Keen: Matt, give us an example of something. We came across here recently, we come across it all the time.

Matt Wilson: Mm-hmm (affirmative). Well-

Bill Keen: Tie it together in a real-life scenario.

Matt Wilson: A couple of things too with these rules. I was just reading a tax briefing recently and this was about an inherited IRA. This person inherited an IRA from their father, father passed, they received the funds, and it was about-

Bill Keen: Non-spouse, non-spouse just to go there, okay.

Matt Wilson: Yep, non-spouse beneficiary, and the amount was about ... It wasn't a large balance, but about $38000. It was at a bank, a local bank. Well, they took the money, so they took a distribution and they received checks made out payable to them.

Bill Keen: Constructive receipt of the capital.

Matt Wilson: That's right and they split it up in two checks for some reason. One check was for about $2500 and the other check was for about $35000. They took the small check and deposited it in their bank account and spent it. They took the large check and they deposited into an inherited IRA and another financial institution within 60 days thinking that they had access to what's called "the 60-day rollover" rule, which applies to IRA accounts, but they didn't know that it doesn't apply to inherited IRAs.

Bill Keen: Ooh. They were taxed on all the money.

Matt Wilson: All that $35000 was taxed their ordinary income rate, and they were in a high bracket. It was a $9000 tax bill.

Bill Keen: Okay.

Matt Wilson: Just little mistake they only really wanted a couple thousand dollars out of the account, but ended up paying tax on the entire balance because they didn't realize that the rule didn't apply to an inherited IRA that does apply to a traditional IRA.

Steve Sanduski: Bummer.

Matt Wilson: Yes. Not very much fun when you get that letter from the taxman.

Steve Sanduski: Yeah.

Bill Keen: That's right.

Steve Sanduski: Let me just summarize what I think I've heard you say so far and then Bill, Matt, you guys obviously have some final words here. But I'm looking at three things here when it comes to these IRAs and inherited IRAs.

One is that either you make the decisions or decisions are gonna be made for you. There's decisions that should be made and when you make those intentionally, good things can happen. But if you don't make those, then things will happen, and they may or may not be good for you.

Second is when you make the decisions you could save a lot in taxes or you may be able to let your money run, and be invested for a long period of time, and grow tax deferred or even tax-free, and that could save you or make you a lot of money.

The third is that there's really multiple planning opportunities here when you look at traditional IRAs, when you look at Roth IRAs. When you discuss whether we should convert a traditional IRA to a Roth IRA and under what circumstances does that make sense financially.

So, lots of decisions that can be made here around IRAs and inherited IRAs. That's one reason why it's really important to work with a pro who really knows what they're talking about when it comes to these types of retirement options. Because one bad decision or one not making a decision, and having it made for you could cost you a lot of money.

Bill Keen: That's well summed up today. Bottom line is, in my opinion, it would be very difficult to navigate these waters, and to Matt's point during a difficult time, as well. A lot of things coming at someone who's dealing with a grieving process potentially of a loved one. If you don't have a thought through current up-to-date financial plan that is taken into consideration, how much do you need to live on? What are the timing aspects to that? What other income would be coming in during these times? What will the tax situation look like? What are all the aspects to a financial plan?

Being able to then bring these decisions into that planning process. That's one of the beauties of having an updated financial plan is whatever life throws at you, you're able to bounce the decisions off of your updated financial plan. I've just seen folks. Some people, a small amounts folks, are able to keep track of all this. The rules and regulations, they're constantly changing themselves, but most of the time if I'm asked I would say that I truly believe that someone needs a competent fiduciary team that has a checklist-driven process.

I know I come back to that because it's one of those things that I believe is the wisdom that works. Because I've seen it work for nearly 27 years. Being able to bounce the ideas, there's no way that someone could say, "Look at all these aspects." Even when we talked about in our short episode today, look at all these aspects. Which one makes sense or which combination of these potential decisions makes sense for you if you don't have a framework for the decision-making and how the cascading effect that one decision has over all these other factors of someone's financial plan and everyone's different.

There's no right answer for each person. I think, again, to even further the summary that you did, Steve is that I think the takeaway here is if you don't have an updated financial plan in place where you thought through this, I would suggest that at this time of year here we are in December, we're thinking about getting prepared for next year, and having a strong 2019 in all aspects of life. I would say making a financial plan, a retirement plan that addresses all these things with a competent fiduciary advisor should be at the top of the list.

To make sure that whatever comes at us, whether it's market related or any of these issues we talked about today or many of the others we do on this program that we have a basis for decision-making, so we can be intentional about these things, and not reactive, and not look back and say, "Wow, we totally missed an opportunity" or "We're burdened with something that we just could have avoided had we just done a little pre-thought about these things."

Matt Wilson: That was well summed up.

Steve Sanduski: Well, that was well said, Bill and for all of the notes from today's conversation, you can go to keenonretirement.com. That's K-E-E-N on Retirement.com. You can get all the other podcast episodes that we've done, as well. Bill, Matt, thank you guys. Another great show. Lots of great education here, informative that's really gonna help out our listeners. Appreciate all the great work you guys are doing and happy holidays, and we will look forward to, I think we have another episode or so here before the end of the year, but looking forward to an exciting 2019.

Bill Keen: Well, same to you, Steve. Happy holidays and to all the listeners, thank you for listening.

Matt Wilson: Yep, thank you.