Ep:6 What To Do When Crisis Hits

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PATTI BRENNAN: Have you ever been faced with a situation that you weren't prepared for? Typically, in our financial lives, financial difficulty and family hardship usually come from one of two sources. It's either a slow leak or an unexpected event.

Let me give you an example of something that happened in my own family. As you probably know I have four kids. My youngest, Jack was skateboarding one day. Ed and I happened to be up in New York City at a black-tie event.

To make a long story short, I got a phone call from Jack, he didn't feel right, and I was up in New York City. He was at the house. He was actually going to bed. I sent someone over there. To make a really long story short, he ended up with a traumatic brain injury with two bleeds in his brain and on a ventilator.

Now, I will tell you by the grace of God he was 17 years and nine months old. As this crisis was happening for our family we were able to get the information from the hospital. We were able to find out what the diagnosis was and the fact they were going to medevac him to a hospital in Philadelphia. We had to get out of New York City right away so that we could be at his bedside.

Here's the point, a lot of us don't realize that once a person turns 18, they're adults. The fact of the matter is, if Jack was 18 years old we would not have been able to get any information. We would not have been able to authorize brain surgery if that was something they were recommending. We would have been completely in the dark. I think a lot of us forget about this when we send our kids off to college, for example. Once you do, you realize that the college isn't going to tell you anything about the kids' grades. They're not really communicating with Mom and Dad, even though we are paying the tuition, but it's because they are adults.

Before you send them off, I would highly recommend, sit down with an attorney or go online. Get a financial power of attorney as well as a healthcare power of attorney so that if that particular crisis hits, and I pray to God it doesn't for you, but you'll be prepared that you will be able to get the information that you need so that you can do the things we as parents want to do for our kids.

This also applies for young adults. They're in their 20's. They may have jobs. They may have girlfriends, boyfriends. They may even be married and have kids of their own. This is not something that most people think about. It's not top priority for most young families. I got to tell you, it's important. It is really important.

With HIPPA these days, these places are not going to release any information even though you might be a parent, you might be married, etc. It's an easy document. Easy thing to get. Think about who would be primary, who would be successor. It will save so much family hardship at a time when you just don't need that inconvenience. That's number one.

Number two, we have a lot of people who are retiring or changing jobs. A couple of things have happened this year that I really want to bring your attention to. When people do that, first of all, a lot of times they have 401(k)s or pension plans, etc. Some people, it's not everybody is going to roll that over into their own IRA. We'll talk about that in a minute.

The people that do choose to roll it into an IRA, you've got to understand what the rules are, because on two occasions this year even though the underlying 401(k) company were given instructions in terms of who to make the check payable to, that they wanted it to be a trustee-to-trustee transfer.

The 401(k) custodian actually sent the check to the address of record, which most of them are doing these days payable to the individual. I got to tell you, folks, that is a taxable event.

If you're listening to this podcast and if this applies to your situation, please understand the difference between a trustee-to-trustee transfer and a rollover, they are not the same. Trustee-to-trustee transfer means that there is no withholding. It would otherwise be 20 percent. Also, you can do an unlimited number of trustee-to-trustee transfers in a given year. You're only allowed one rollover.

The take away from this is, if this is your situation and you're watching this podcast, make sure that the check is made payable to the new custodian of your IRA. Otherwise, you're going to be paying a big tax bill come April. That's number two. The third crisis that often hits families and it's especially important given where we are in our economy. We've been in a season in our economy where unemployment has gone down and down and down and down.

Eventually, the bad news is, that's going to be over and layoffs are going to start to occur. That is a crisis for a lot of people. First I want to raise the flag and say, "No matter what you do, what your position is, be ready for that potential crisis to occur for you."

We all talk about emergency funds. Again, depending on your situation you might want to have three months, six months or up to a year in an emergency fund if this occurred to you so that you would be in a position to be able to choose the next position, the next job that you take. That you're not going to be having to take the first thing that comes along. That's the purpose of the emergency fund there.

The second thing is to understand the do's and don'ts. For example, do not, under any circumstances, if you can possibly avoid it, don't ever cash your 401(k) in. The statistics on this are alarming. 40 percent or more people actually take their 401(k) as cash, pay their taxes pay the 10 percent penalty and move on. That's really one of the worst things that you could possibly do.

Here's an idea. By the way, I totally understand that if this is your situation, let's say you've been laid-off. You've gone through the severance. Unemployment benefits have stopped and you still got the mortgage payment, the tuition, all the bills that we all have. You might be looking at that juice six figure 401(k) account and say, "You know what? I'll just take the money out of there. "I'm just going to tell you guys, please resist that urge. Here's plan B. Instead of taking the money out of the 401(k), leave it in the 401(k). Do not even roll it over to an IRA. As things evolve and as you get your new position, what I'm going to tell you to do is take the old 401(k), roll it into the new 401(k) because hopefully, your new employer will offer one, creating an instant balance that you can borrow from.

You can take out and borrow up to 50 percent or $50,000. You can pull the money out, pay off those credit card bills or that home equity line of credit and then pay yourself back through payroll deductions. No taxes, no 10 percent penalty.

Here's the point. When crisis occurs, always know there's plan B. Here's the point. When you think about crisis, the problem with them is, we're not expecting them. These three areas are things that have happened to either us or people that we take care of.

Number one, whether adult children or anybody, make sure you have financial powers of attorney and healthcare powers of attorney. It's an easy document. Just get it done. Number two, for those of you who may have changed jobs, etc., and you're rolling your 401(k) into an IRA, make sure those checks are made payable to the new custodian. If you don't, then you could be hit with not only taxes but a 10 percent penalty. After 60 days it's all over. You've missed a great opportunity.

Number three, we have to recognize that we're in or approaching a new season of our economy. We've had unemployment going down. For those of you who are working, no matter what your position is, just be prepared. Make sure you have that emergency fund. By the way, make sure you also have that home equity line of credit and remember, don't ever, ever, ever cash in your 401(k). Remember, there's always plan B.

Thank you so much for joining us on the Patti Brennan Podcast. I hope you have a wonderful day.