PBS Ep150 AskPB Next Dollar Transcript Audio

Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have $20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

This is part of the ongoing series, the "Ask Patti Brennan" series. We do get questions a lot. One common inquiry, particularly from individuals who have raised children, sent them to college, and now find themselves with surplus cash flow, is: "Where should we be putting some of this extra money?"

It's a really important question. Number one, you've got to have a good slush fund, a good emergency fund. We've got Plan A, but you've got to be ready for Plan B.

That's where that emergency fund comes in because you don't have to sell anything if we're in the midst of a bear market. You don't have to freak out and worry if you lose your job. That's what that emergency fund is there for. First and foremost, make sure that you've got a fully funded emergency fund.

The old rule of thumb, put three months' worth of expenses in a money market account, may or may not apply to you, so stay tuned for that.

Once you've established your emergency fund, you've got some extra cash on hand. First and foremost, if you have any high-interest debt, get rid of it. Pay it off. Don't invest that money. Get rid of the high-interest debt.

If you've got insurance, which we all do, you want to make sure that you've got plenty of risk management tools at your disposal. In other words, what's insurance? Insurance is there to cover something that you don't want to pay for yourself.

We have homeowner's insurance. If you have a fire, instead of that coming out of your pocket and that emergency fund that we just talked about, let the insurance company pay for it. Make sure that you've got adequate coverage when it comes to your home, your car, medical insurance, etc.

The big question mark that we get a lot of is long-term care insurance. The answer to that question's going to be different for everybody listening to this podcast.

After you've established those baseline things and you've determined that you're tracking fine for your important goals, make sure you're taking full advantage of whatever you have available at work.

In other words, make sure that you're taking full advantage of the match in your 401(k), assuming that you have access to that. If you work for a public company and if they offer a stock purchase program, where you can buy the stock at a discount, typically it's 15 percent, pretty darn good.

Now, here's the thing. When you do something like that, recognize, especially with 401(k)s, it's not going to be as liquid. You're going to be subject to some restrictions if you put it into a retirement plan.

There could be penalties, certainly taxes, etc. That's why you've got to make sure that your after-tax money, your emergency fund, is fully funded first.

When it comes to these stock purchase plans, you've got to understand are there any kind of restrictions. Do you have to hold onto it for a period of time? Again, there's going to be risk in that.

Just because you're getting a 15 percent discount doesn't mean that the stock can't go down further. Be aware of that and understand what your time horizon is for this dollar.

I think that I probably should have started out by saying ask yourself the question. If you've got this extra money or extra cash flow, what is most important to you about that? What do you want to earmark it for? Do you want to earmark it for a second home or a great car or a wedding for one of your kids?

The time horizon that you have is going to be different for each one, so what exactly is your objective there? I'm looking at my notes. There are lots of different things that people want in terms of their primary goal.

Some people come in to me and say, "I'll do anything to save taxes. Should we be buying a rental property?" I have to remind them that the tax laws have probably changed since the last time they looked at that.

For example, if you make over $125,000, chances are you're not going to get that deduction that you thought you were entitled to. By the way, the most you can take is $25,000.

That is a really important decision. Make sure that you're talking with your CPA or your financial advisor to determine whether or not that's an appropriate thing for you to be investing in. Don't let the tax tail wag the dog. That is first and foremost. There are a lot of people who lose a lot of money on rental properties.

By the way, something like that, you've got to make sure that you understand that there's ongoing maintenance to that rental property. What happens if it lies vacant for a couple of months? Your cash-on-cash return may not be what you thought it could be, so very important to be realistic in terms of what your goal is.

You may be interested in charitable contributions. There are ways to provide and support charities. Some ways are better than others, so make sure that you know everything that's available in terms of that, if that's important to you. So Let's talk about some of the outcomes that people want to save for. First is retirement, right? When it comes to retirement, if you want to increase contributions to that retirement plan, are you comfortable with the limited flexibility that you may now have?

What do you expect in terms of your tax rate? Do you think that your tax rate is going to be higher or lower in the future? Maybe, just maybe, you might want that money to go into a Roth 401(k) or a Roth IRA. It doesn't help you today because it's after-tax dollars, but it does grow tax free.

Every dollar that you have, everything that you invest in, every place that you put it has implications. It's really important that you understand what the implications are.

We don't know what's going to happen with tax rates. We don't know what your situation is going to be when you're 75 years old and have to take those required minimum distributions. People often find that when that period comes, they're in a higher tax bracket than they ever were. What a bummer.

Wouldn't it be nice to know whether or not it makes sense to do after-tax contributions so that you don't have to have that high tax rate when you're retired? Keep that in mind in terms of the flexibility of your tax situation.

Another thing, how about putting aside money for unknowable risks that might occur in the future? For example, if you have a high-deductible health plan, that would allow you to put money into an HSA.

We've talked about this before. HSAs are probably the only free lunch we have anymore. They're a great tool to save for future medical expenses. 529 plans for children and grandchildren, that's a terrific option if that's an important value for you.

Make sure that when it comes to these items that you're OK with the lack of liquidity, that you may be giving it to a charity or setting aside for someone else's education, and that that's not money that you're going to need for yourself in the future. Nothing worse than having somebody 75 years old saying I wish I hadn't. That is a real bummer. Don't let that happen to you.

As it relates to your own financial planning and what to do with those excess dollars, as we talked about before, maybe consider doing a Roth conversion. You may have IRAs or 401(k)s. You can do a Roth conversion. It doesn't matter how much your income is.

That may make a lot of sense for that extra dollar that you might have. It may go to the federal government in the form of taxes, but holistically, overall, you're going to be in a better place in the future because you did it today.

Again, lots of different ways that we can look at this, and I'm going to say this. There's no one perfect solution for everyone. We're all different. I've said this before. I'll say it a million times. The idea that we should all be doing the same thing with our money is just wrong.

It reminds me of that Mark Twain quote. My daughter gave this to me, and I just love it. Mark Twain once said, "If you judge a fishh by its ability to climb a tree, it will grow up thinking it is stupid." Don't compare yourself to anybody else. Do what's right for you. Do what's right for your family.

Think it through, think holistically. There will be a time for everyone who is listening and watching where you're going to have a little bit of extra savings, extra cash flow. Ask yourself the questions that we've talked about today. What is your goal for that money? Then options will present themselves.

I'm Patti Brennan. Thank you so much for joining me today. If you have any questions about this or any other subject, go to our website at www.keyfinancialinc.com. Take care, everybody.