Epstein Ep 5

[00:00:00] Hey everyone. Charlie Epstein here and welcome to my yield of dreams podcast. This is the show that asks the questions. What does it take to pursue your life's passion? I mean, to really go for what you've always dreamed about to do what you truly love and why does so many people sell out their dreams?

[00:00:19] There's an aspirations for job they hate and a paycheck. That's less than fulfilling during the show, I'm going to interview different people about how they've strived to go for their passions in life. And how do they balance that with the need to earn that paycheck. We're going to hold up in the light, your myths about money, not to try to change them, but to aluminate them to have you begin to discern, where did this come from and how do they impact your life in the distance decisions that you've made and to see if you'd be willing to just let them go.

[00:00:52] And maybe replace them with a new money strategy that will produce a better result and ease your pain and suffering [00:01:00] about your money. So let's dive right into today's show.

[00:01:09] Thank you. Charlie Epstein of Epstein financial I'm Patrice Sikora. And this episode of yield of dreams continues the mini series on myths about money based on the yield of dreams playing cards developed by Charlynn. We'll talk about those later in the podcast, too. Don't me forget Charlie. In previous podcasts, we've debated whether you should stop working in retirement to be happy, whether you should pay off a mortgage and whether owning a home is.

[00:01:35] Be a good investment in the first place. This time around taxes, Charlie, you everybody's favorite subject. You will be or tax bracket when you retire, by the way, do you know the three things that are guaranteed in life? Um, let's see. Isn't it taxes, death. And. The Kardashians will say something stupid [00:02:00] today.

[00:02:00] Those are the three things that you can count on that I guarantee you. I think that one could probably be swapped out with a number of other things too. Yeah, probably this is the world we live in folks, but yes, yes. We're talking about our yielded dreams, playing cards, which you go to a financial advisor.

[00:02:16] They usually give you a packet of information that you have to fill out and all of these questions. And what do you do with it? You kind of look at it and think, Oh yeah, this is hard work. This is heavy lifting and you just put it on your other pile and you may never get to it. So, folks, what we've done is we've created this deck of cards.

[00:02:34] The yield of dreams, desirement planning cards is 52 cards. It takes you through this great experience of finding out what your priority goals are right now in life. What your top three priority goals are. What your desirement dreams are. What do you really dream about? What are you most passionate about doing?

[00:02:52] And then we've got these 14 myths about money, where we ask you, is this a myth or a fact, and today playing card, number two [00:03:00] is myth or fact you'll be in a lower tax bracket when you retire. What do you think? Will you be in a lower tax bracket when you, no, I don't think so. So it's a, I think it's a myth.

[00:03:11] I think it's a myth. Well, tell me more. Why do you want, what makes you say that? Well, you are, where am I going with this? I don't know. You won't be in a lower tax bracket because you still you're losing all your deductions. Number one, if you've paid off your house, you don't have those deductions. You don't have kids.

[00:03:29] You don't have educational deductions. You don't have child support deductions. That's a start. Yup. No, that's good. So here's the first thing. Most people don't even think about this as they're investing in planning, they don't even think about the impact of taxes. It's all about, Oh, what's the market doing?

[00:03:47] And how's my 401k doing? Am I saving enough? And then they get to their desirement years. The year when you decide, you know what, I'm going to transition, I'm done the current job I'm in. I want to transition [00:04:00] either want to focus on what I'm most passionate about. Do I have enough money to pay for all the things I want to do travel right through that right now with COVID, but, and suddenly the tax man shows up at your doorstep.

[00:04:13] Maybe you've got buckets of money. You've been putting money. Aside, aside in your 401k on a pretax basis, you have a pension plan. If you work for your teacher and you have a pension, right? Or you work for a union and you have a pension now, or you have an employer that has a pension, or your spouse has money in retirement buckets.

[00:04:33] And so a lot of people think, well, when I stop working, my income's going to go down and you've just pointed out, but you're going to lose it some deductions. And here's the other thing that is hard to determine, which is where will tax rates be in the future? Are they going to go up or are they going to go down?

[00:04:52] No, they're scheduled to go up right now. Well, 20, 24. Isn't that? When they current, uh, yeah, [00:05:00] that phases out the Trump tax is phase out. Well, here's the thing. Tell me who's going to be in the white house or more importantly, who's going to control Congress or the Senate, and I'll tell you which way taxes are going to go down.

[00:05:11] So this administration, I'm not being political folks. This is pure economics. So put your politics aside. We're going to talk economics because that's what rules. If you have a Republican in the white house, it's already been demonstrated. Ronald Reagan came to the white house after Carter and transformed the tax code by reducing taxes.

[00:05:34] Trump came into the white house, transformed the tax code by reducing taxes. Clinton came into the white house in 1992. My dad was 68 years old. He was getting ready to retire. His accountant, which happened to be his father. My grandfather had said to my dad, here's two things you can count on when you get ready to retire, you'll be in a lower tax bracket and your house will be paid off.

[00:05:59] So there was my [00:06:00] pop working as an executive, a retail clothing store, or called casual corner stores. Maybe you remember casual corner stores. Okay, you don't. So it was a big clothing chain. They have 2000 stores across the country. He ran the distribution center was senior VP. He was making a six figure income before he retired, had saved enough money so that he could continue to pull out that much in income.

[00:06:26] Bill Clinton comes in the white house and he raises the marginal tax rate. The highest rate from 36 to 39.6. Oh, so there's my dad retiring. Hate that word going into his desirement years. And suddenly he is in a higher tax bracket. Boom. I am now a lot of people say to me, well, how can you plan for something that's unexpected?

[00:06:52] Well, you can, how, but before we get there, let's see, just take a look at where we are in this [00:07:00] landscape. So we've been dealing with this COVID virus and our government has been responding by doing what, nothing printing money. Oh, you're talking about the money. Let's say nothing. Our government has been printing money.

[00:07:17] Okay. I don't care again. You're getting political governments been printing money. Pouring it into the system in order to help small businesses with the pension protection act. Thank you very much. We took advantage of it. If that wasn't there, I would have had to lay off employees. I have not had to lay off any employees because of that.

[00:07:35] So trillions and trillions of dollars have been printed. They're now fighting over the next one or $2 trillion that they're going to print that leads to who's going to pay for all that. And that leads to higher taxes. Now. If in fact, the Democrats take over the Senate, they take over, they, they keep control of Congress.

[00:07:57] They take over the white house, Joe Biden. [00:08:00] And again, I'm not being political and being economic is the first president that I know of that is actually running on raising taxes. Remember George Bush? The father said, read my lips. No new taxes. And then what did he do? He had to raise taxes. Yeah. Biden is just basically coming out.

[00:08:21] If we're going to move into a socialist form of government, that's going to cost money. That's mean taxes are going to go up. So let's get back to, you'll be in a lower tax bracket when you retire. It depends on night, not only your earned income, but folks what your unearned income is going to be when you retire.

[00:08:42] So you've got buckets of money. Get my 401k money. That's never been taxed. I've got IRA money. That's never been taxed. I've got a pension. That's never been taxed and Oh, by the way, social security. Yes. The future podcasts. We're going to talk about social security, but for today, guess what? [00:09:00] If you make too much income, your social security can be taxed and that's just at the federal level.

[00:09:06] It can be taxed in some States to Canada. Whoa. Beautiful point. So what's happening right now with revenues for States. Well, a revenue for States it down sharply. Actually, it's kind of interesting. I just saw an article wall street journal where state revenues are not as low as expected, but give us some time until we get this vaccine.

[00:09:28] If there aren't businesses to tax right then the coffers in the States are going down. Also, you've got people fleeing, New York city. You've got so. Fleeing these metropolitan areas because they don't have to work there anymore. Folks. We are in an inflection point and how business and work is being done.

[00:09:52] Let me give you an example. Zoom technologies yesterday. Guess how much the stock was up? Oh, geez. I [00:10:00] can't, I don't know. Over 40% in one day 40%. And this is after the outage. They had to. No, that was a long time ago. They saw a week ago. It was a week ago. I know I said they've solved that problem. That was a week ago.

[00:10:15] That was, this is how fast things move. Their projected earnings are soaring. Their stock took 40%. Boom. My point is people are going to be changing where they're living. They're going to be moving out of metropolitan areas, less business, less revenue. So you're going to have not only federal taxes, potentially going up state taxes, going up.

[00:10:38] And local taxes going up. Yes. So myth or fact folks you'll be in a lower tax bracket when you retire. It's not only at the federal rate. If you're in a state, like I am a Taxachusetts I'm sorry, Massachusetts. Taxes will go up and at the local level. And by the way, taxes could be your real estate taxes going [00:11:00] up.

[00:11:00] Oh yes. As you said, municipalities, their gasoline tax going up. Have you heard what they're going to do in New Jersey? Gasoline taxes are going up 9 cents Jersey 9 cents. Again, I know, you know, cause we've got a lot of expenses down there. We've got to take care of the revenue. It's short, it's short.

[00:11:19] That's right. No. I used to live in Connecticut for 13 years and there was no state tax in Connecticut while they changed that there's a state tax in Connecticut. So now what can you do about it? Well, I've got a home in Utah right now. There's no state tax in Utah and real estate taxes are actually very low.

[00:11:38] So you could change where you live to a state that has no state taxes that could save you money. But. Let's talk about right now, wherever you are, especially if you're listening to this and you're in your twenties, thirties, forties, fifties, how can you begin to reposition the money that you're saving and investing?

[00:11:59] So it will [00:12:00] never be taxed. And that's something that I call the power of zero. So folks, what you want to start thinking about is how to invest your money. In buckets that will never be taxed. So I'm going to give you an example. Most of you probably are contributing to a 401k plan. Many of you are actually putting your money in on a pretax basis.

[00:12:21] That means your money goes in pretax. So it's not taxed. It grows tax deferred. So it's not taxed. But when you get to age 60, 62, 65, 68, whenever you reaching your desirement years and you pull that money out, what's going to happen. Oh yeah. And not only are you being taxed on the money that you've put in, but on the amount that has grown.

[00:12:42] Exactly. So the first bucket that you should be creating, and by the way, I don't care how old you are. And I'll give you a personal example, but the first bucket you should be creating is the Roth bucket inside your 401k plan, which means you should be putting your money in on an after tax basis [00:13:00] today.

[00:13:01] All that money grows and compounds. And when you pull out every penny, it will never be taxed under current regulations. I have to say that because people say to me, well, can't, they change the regs, certainly, but the more money that goes into those buckets, the less likely. People that you vote for will tax that bucket.

[00:13:23] Now they might change future contributions, but it's going to be really hard to tax that money. Now they've already gone after retirement money. So at the end of last year, December 31st and the tax bill Congress and the Senate by partisan led by my Congressman Richard Neil here in Massachusetts, we just won his primary again for the 400 at the time.

[00:13:48] They voted. So let's say you and I are married. We have retirement accounts. I pass away that money passes to you. Tax-free you're living off of [00:14:00] that money. You're paying tax on it. We have kids, you pass away that money. Let's say we have two children and some million dollars. Each of them inherits 500,000.

[00:14:10] It goes into their IRA bucket. It doesn't get taxed. Now let's say they're in their thirties. They have to take out a required minimum distribution based on their age, 30 and their life expectancy, 88. So each year they'd have to pull out a small amount. They pass away, they have kids, they can pass it on to their kids and their kids' kids.

[00:14:34] So that used to be the old rule. Avoid the tax no more. Okay. Congress just said, wow, that's a lot of money that we can't get our hands on. For tax purposes. So under the new regulation, you and I pass away, our two children inherit that 500,000. It goes into their IRA account. You don't have to pay tax on the whole amount.

[00:14:58] You have to take a minimum [00:15:00] distribution over the next 10 years, and guess what happens at the end of that 10 year period, I'm hearing the word tax. They are going to be forced to take out all that money, everything, and be taxed on it. Oh, wow. Yeah. Well, is there any way they could take it out and then you'd still have to pay the tax on it, but I'm just going to put it back.

[00:15:27] Well, you could do the analysis, which would be right now. Why don't we convert that money? Right? If this, by the way, folks, here's the opportunity right now. This is the lowest tax rates. Federal tax rates have ever been in the history of America. You know, at one point the federal rate was 70% in this country.

[00:15:46] When was that? In the 1920s and thirties. Wow. Okay. So we are at the lowest federal rate tax rate, 36 corporate rates 20, [00:16:00] but now is the time. If you've got money in a 401k plan, that's pre tax in an IRA. That's pre-tax. To sit down with your financial advisor, sit down with your accountant and calculate.

[00:16:15] Would it be worth converting that 401k, that IRA inside your 401k to the Roth 401k or outside from an IRA to a 401k, I mean, to a Roth IRA and do the calculations. It's all based on time and compound interest. I can understand the why some people wouldn't want to do the Roth initially because they feel that they need that.

[00:16:41] That my induction production today. Yeah. Yeah. So maybe they have to lower them out. They're putting in, but you've got to do the calculation, which can be done, which is say, well, instead of contributing 15%, maybe I'm going to contribute 12. So my out of pocket costs is still the same, but now I've got all that growth.

[00:16:59] And [00:17:00] let me paint a picture for everybody in it. Imagine you've got a bag of seeds in your hand. Okay. And you're going to go across the street and there's a big field and you're going to plant those seeds. Now, if you're 20 years old, you're not going to harvest that crop until you're 65, so 45 years. So let's say you're not going to harvest that crop for 10, 20, 30, 40, 50 years.

[00:17:25] Which do you want to pay tax on the little seed going in the ground or the big harvest coming out? What's the, what's the seed. Exactly. Yeah. Well, there you go. That's the Roth right now. Let me give you a personal story. So I'm 63, 13 years ago when I was 50, they added the Roth feature to a 401k plan.

[00:17:48] Prior to that, you could only put money in pretax. Now, magically I could put money in after tax in my Roth bucket in my 401k. So I called my accountant up. It's been my account since I was five years old. [00:18:00] It's kind of a funny story. We were actually in Cub Scouts together. My mother was the den mother, and I can't remember, I was trying to learn how to tie a tie to get my Weebly badge.

[00:18:12] And Steve looks at me. He says, you know, I'm going to be your accountant. We're five years old. And I looked at him. I said, well, okay, Did he even know what an accountant was? Yes, because his father was an accountant and sure enough, he's been my accountant ever since. So I called him up smart guy. He's got an MBA from university of Chicago, CPA realtor's license.

[00:18:32] I had a brilliant, brilliant guy and I said, Steve, should I keep putting my money in pretax? Or should I start putting in after tax Roth? And what did he say? You tell me, he said, keep putting it in pretax. And I said, why? He said, because you're getting the deduction today, time value of money, yada, yada, yada.

[00:18:54] That's what every accountant says, take a deduction, take the deduction. Yeah. And I said, thank you very much. And I didn't [00:19:00] listen to him. So I started putting the full amount and by the way, If you're under age 50, you can put $19,500 into your 401k, either pretax or after tax Roth. And if you're just a hair over 50, like I am, well, actually I have no hair, a little gray hair.

[00:19:20] You can put in $26,000. That's a lot of money that is. And here's the good news people will say to me. Well, I can't do that in an IRA because I make too much money. There's no income restriction in a 401k. So if you make $10 million a year, you can still put in the 26,000. What is it like? Oh, I didn't know that.

[00:19:40] What about the IRA? Okay. Nope. IRA. If you make think filing jointly over 202,000, you can't put money into an IRA on a pretax basis or Roth. But stay with the 401k. So I started putting all my money in since I was 50. Now here's why I did it. I've been [00:20:00] contributing to retirement accounts since I was 21. So for 30 years, I already had a bucket of seven figures of money that I knew was going to be taxed someday.

[00:20:12] And I'm going to be forced under the new regulations. When you turn 72, it's not 70 and a half anymore. When you turn 72. The government's going to come knocking on your door and force you to start taking money out, your required minimum distribution, a Roth. Nobody can force you to do anything with that money.

[00:20:32] Really can't tax it. Yes, I did not know that. So here's the power of zero concept. I'm going to pay zero taxes when I take that money out. So two years ago I got a phone call from a client of mine and they say, Hey, are you interested in a new office building? And it just so happened. I was, and they had an office building here in town.

[00:20:54] I'm in the Boomi metropolis of East liminal, Massachusetts, right in the center of town. It's two [00:21:00] miles from my house. The building had been sitting for a year. They'd had a fire. I went over, I looked at it and I said, Oh, we started negotiating. And my wife was like, where are you going to get the money? Now I had turned 59 and a half and I pulled out my Roth 401k statement and I had.

[00:21:18] $450,000 sitting in there that I could take out no 10% penalty. Cause I'm over 59 and a half and no taxes. And I thought to myself, well, let's see, I could keep the money in the Roth account, get my quarterly statement, look at it and file it in file 13. You know, it filed 13 is the trashcan. No, I did not that.

[00:21:38] Okay. Or goodbye the building and walk into my Roth every day and have that experience. And that's what I did every day. I and my employees and my clients walk into this beautiful building that's appreciated and value, like my Roth wood. And I bought it with tax free dollars. That's the [00:22:00] 0.0. Now my telling everybody to buy real estate with your Roth money.

[00:22:03] No. What I'm telling you is it was there for the opportunity to do what I really wanted to do most, and I didn't have to pay a dime of taxes. That's brilliant. So most people thank you. So those of you that are listening, think about this. You've got to position your money in different buckets. So if you've already got money, pretax and a 401k, you're going to be taxed on that someday.

[00:22:31] And I'm saying you're going to be taxed at a higher level, probably because we've got a huge amount of debt in this country at all levels. Federal state and local taxes are going up. You're being given this opportunity by the government to put money in an after tax basis into that Roth account and create a second bucket of money.

[00:22:53] Now let's say you get to your desirement years and taxes went down. So you've got money in your [00:23:00] 401k account and taxes go down. So maybe you'll start taking money out of that account because it's at a lower tax rate and let the Roth keep growing until you need to take it out of that bucket. Right? Got it.

[00:23:13] Taxes go up. You got the Roth bucket to take the money out of tax free. So I tell people, Hey, I'm going to show you a way to live. Tax-free from age 62 to 72. You ready? Everybody get ready to write this down. Let's say you're going to retire at age 62. You're going to take your social security at 62. And by the way, that's another myth we'll get into when should I take my social security?

[00:23:34] But let's say you decide to take it at 62. So, and you're not working. But your social security is not going to cover all your expenses. By having this Roth bucket, you take money out of the Roth bucket, your social security and your Roth bucket are tax free. You're living the dream and you do that for the next 10 years at 72, you're going to be forced to take money out of the [00:24:00] 401k bucket and it might be taxed.

[00:24:05] So there's a way to live tax-free for at least 10 years. But I like it. I love it. So again, it's all about positioning your money to take advantage of opportunities that you don't know exist, but I promise you will be there in the future. How can people get in touch with you to talk about this some more?

[00:24:26] That would be a great idea. So you can reach me by email at C, D as in David Epstein, E P S T E I N. At the it's T H E four Oh one K coach.com. That's how I'm known. I'm the 401k coach. And just send me an email. You can go to my website, Epstein financial.com. You can order your set of the desirement playing cards.

[00:24:54] So you can start to get in the groove, learn what your myths are about money, what your priority goals and desires [00:25:00] dreams are. And we'd love to talk to you. We'd love to be of service and help you figure out how to create buckets of money with the power of zero that you'll never pay taxes on.

[00:25:14] I want to thank you for listening to my podcast, yield of dreams and learning how you can create paychecks for life to ease your pain and suffering about your money. Getting to pursue all of your passions, dreams, and aspirations. You're listening to Pedro Martinez, jazz music. Amazing sound. Be sure to look him up as well.

[00:25:34] And you sure to click the subscribe button below so you can be notified when new episodes become available and you can reach me directly at C, D as in David Epstein. That's E S T E I n@401kcoach.com. Look forward to connecting with you and being of service to you in the near future peace, everybody [00:26:00] .