Mullooly Asset Podcast #188 – Tim & Tom's Mailbag Questions - Transcript

Tom Mullooly: Welcome back to the podcast. This is episode number 188. 188 podcasts. That's pretty good.

Tim Mullooly: That's a lot.

Tom Mullooly: Yeah. I'm Tom Mullooly.

Tim Mullooly: And this is Tim Mullooly.

Tom Mullooly: Together we're going to be answering your questions.

Tom Mullooly: This will be a pretty different podcast than we've done this week and last week in the sense that we are answering questions that we are getting in our mailbox.

Tim Mullooly: Right.

Tom Mullooly: And they're pretty unique.

Tim Mullooly: Yeah, some of them are pretty interesting, so we figured, someone's asking it, so other people are probably wondering the same thing. Might as well answer it for you in one big podcast for you.

Tom Mullooly: Right. Why don't we jump in with the first one.

Tim Mullooly: Sure. The question is, "Should I be listing my brokerage firm as a primary beneficiary?"

Tom Mullooly: Okay, big sigh. Holy moly.

Tim Mullooly: In a word, no.

Tom Mullooly: No, don't do it. "My broker had me designate his firm as the primary beneficiary to my variable annuity account," okay so I just wanted to find out who this broker is. I have a real problem with this. I'm sure there's a reason why. Either he didn't know ... I don't know.

Tim Mullooly: I hope that's the case.

Tom Mullooly: I just don't understand why he would ever do that. "I was told that," we're reading here the letter, "I was told that upon death a payment would be made to an IRA account that my spouse is the primary beneficiary of as opposed to a direct payment to her. The firm is claiming that this is necessary because they're custodians of my account. Everything I've read says 'never list your brokerage house as the primary beneficiary for anything.'"

Okay, I'm not going to get into whether your broker is right or wrong, but I think naming a brokerage firm as a beneficiary anywhere is a terrible idea.

Tim Mullooly: I agree. Yeah. If the money's going to go to an IRA account that your spouse is the beneficiary on, why wouldn't you just make your spouse the primary beneficiary of the annuity?

Tom Mullooly: Right. I'm sensing that ... This is all the information we have. I'm sensing that this is an annuity that is inside an IRA.

Tim Mullooly: That's a whole other thing.

Tom Mullooly: Yeah. I have some real issues with this, but a pre Department of Labor law ... We'll find out what the numbers are this year, but before the Department of Labor Law was enacted for the last couple of years billions, with a B, billions of dollars inside retirement accounts have been placed annuities. So, we're going to ask the question. I know I sound like a broken record, but I'm going to ask it again. Why? Just call up your advisor and ask them. Why would I ever invest in a tax-deferred investment, like an annuity, inside of a tax-deferred account, like an IRA? Or a 403(B) teacher's annuity. Like, what?

Tim Mullooly: It doesn't make any sense.

Tom Mullooly: I don't understand. To me, there is little to no economic benefit to owning something like that inside of a tax-deferred account.

Tim Mullooly: It's like tax-deferred inception. A dream inside a dream. tax-deferred account inside a tax-deferred account.

Tom Mullooly: I have reasons I'm not going to get into in this podcast that I think may be behind those kind of sales practices, but I just would love to get a straight answer why someone would own a tax-deferred investment inside of a tax-deferred account.

Tim Mullooly: Yeah.

Tom Mullooly: It makes no sense. Let's move on.

Tim Mullooly: Next up, "How would the inverse volatility index offer portfolio protection in the event of a market crash?"

Tom Mullooly: Before we answer this question, you need to know that we are not making any kind of investment recommendation.

Tim Mullooly: No.

Tom Mullooly: Nor are we talking about the suitability of any kind of investment vehicle in this podcast.

Tim Mullooly: Definitely not.

Tom Mullooly: Let's take this one phrase at a time.

Tim Mullooly: Sure.

Tom Mullooly: Volatility index.

Tim Mullooly: Measures the amount of volatility going on in the market at the time.

Tom Mullooly: Right. It actually is a projection of the projected volatility over the next 30 days in the market. So, inverse volatility index. What is the inverse, or opposite of the volatility index?

Tim Mullooly: It would be the lack of volatility index.

Tom Mullooly: Lack of volatility, which by the way, we're recording this in July of 2017. Markets have been pretty low key. We've had very little volatility.

Tim Mullooly: Historically low volatility.

Tom Mullooly: Historically low volatility. So, "How would the inverse volatility index offer portfolio protection in the event of a market crash?" In the event of a market crash, Tim, how much volatility do you think we're going to have?

Tim Mullooly: Probably a significant amount. I can't really imagine a market crashing with little to no volatility. It doesn't make any sense.

Tom Mullooly: It doesn't make any sense at all, so an inverse volatility index will offer how much portfolio protection?

Tim Mullooly: Absolutely zero.

Tom Mullooly: Yeah.

Tim Mullooly: It would probably do the opposite.

Tom Mullooly: Yeah.

Tim Mullooly: It would, yeah, it would do the opposite of protecting your portfolio.

Tom Mullooly: It would crash.

Tim Mullooly: It would damage your portfolio.

Tom Mullooly: Right along with the market. It just makes no sense at all.

Tim Mullooly: Yeah.

Tom Mullooly: Okay. So, let's move on to the next one.

Tim Mullooly: Sure. "If I keep a trade open over the weekend, will there be extra fees, charges, or penalties?"

Tom Mullooly: The simple answer is, no. There will be no extra fees, charges, or penalties at most brokers.

Tim Mullooly: Right.

Tom Mullooly: There is possibly another brokerage firm out there who may charge some kind of extra fee.

Tim Mullooly: If you're using a brokerage firm that does that though I suggest finding another brokerage firm.

Tom Mullooly: Look around.

Tim Mullooly: Because, most wouldn't charge any extra fees.

Tom Mullooly: Yeah. If you're keeping a trade open over the weekend, what that means is you have an open order to buy or sell. Maybe you have a limit order. I want to sell X, Y, Z at this price. I want to buy A, B, C at that price, or I have a good till canceled order, or I have some other open order, a limit, a stop, something. The answer to your question is no. The bigger question that I have in reply, and I know it's impolite to answer a question with a question, but like what are you doing in the stock market?

Tim Mullooly: Right.

Tom Mullooly: The person who wrote this question, whoever you are, they're anonymous, but whoever you are, do everyone a favor and get out of the stock market. You don't belong. I don't mean to sound harsh, but I don't know any other way to say it. You've probably heard the saying a fool and his money are soon parted. This is going to happen to this person, because they don't know what they're doing.

Tim Mullooly: You shouldn't be making trades if you don't know how the trades work.

Tom Mullooly: Yeah.

Tim Mullooly: It's like driving a car and you don't know how to drive.

Tom Mullooly: Yeah.

Tim Mullooly: Equally as dangerous, to everyone.

Tom Mullooly: Yeah. Not only you, but the people around you, so please get thee some education. There's a lot of it available online for free.

Tim Mullooly: Yeah.

Tom Mullooly: If you don't know, call us and we'll walk you through how to place orders online. I mean that's really scary.

Tim Mullooly: Yeah.

Tom Mullooly: Okay, let's move on.

Tim Mullooly: Okay. "Can I withdraw money from my ex-spouses 401(k) if he owes me child support?"

Tom Mullooly: "Can I withdraw money from my ex-spouses 401(k) if he owes me child support?"

Tim Mullooly: A lot of these can be answered in one word, but we'll obviously expand on it. The one word answer to this question again is no, or get a lawyer, and have him or her help you out with that.

Tom Mullooly: Yeah. So, how easy is it for individuals to get their own money out of a 401(k) account?

Tim Mullooly: Not too difficult.

Tom Mullooly: Well, you need some paperwork.

Tim Mullooly: Right. You've got to fill out some forms.

Tom Mullooly: It's not like going to the ATM.

Tim Mullooly: Right. You can't just swipe a 401(k) debit card and get $1,000 out.

Tom Mullooly: Right. Yeah, it doesn't work that way. So, someone else trying to withdraw ... We know that there's married couples, and formerly married couples. We get that. But, let's just think about it. One human being is trying to withdraw money from another human being's retirement account, their 401(k) account. It doesn't work that way. Now, you could get a lawyer and go to court, and maybe they can attach a lean, or maybe they can do something to garnish wages. There are other things that can be done, but typically no. Interesting question, though.

Tim Mullooly: Yeah.

Tom Mullooly: Okay.

Tim Mullooly: Okay, next up. "How can I determine whether or not my former employer will be able to payout my pension."

Tom Mullooly: That's a good one.

Tim Mullooly: Yeah. Interesting.

Tom Mullooly: That is a good one. It's a big risk that very few people even think about. All they see, and again, not wanting to be condescending, but it may sound this way. All they see is every month I'm going to get this much in my bank account.

Tim Mullooly: Right.

Tom Mullooly: That pension is coming like tomorrow's sunrise. Okay, maybe not.

Tim Mullooly: Yeah, there are definitely some things you need to consider when you leave a company. If you have any doubts at all, some companies in their pension plans offer the ability to take a lump sum.

Tom Mullooly: Many plans. Yeah.

Tim Mullooly: Yeah, and get the money out of your pension. There's a trade-off there though. You kind of need to weigh the pros and cons and really decide if that's something you want to do, because-

Tom Mullooly: Understand that when you take a lump sum payout of your pension, which if you're going to do it you have to decide as you're retiring, you can get all of the money that's in your pension, the pension plan currently, but remember what you're getting is the present value of a future stream of income, right? Present value of a future stream of income. So the money that you would get each month in the year 2037, 20 years from now, is worth very little right now, because they've got 20 years to build up that money and be in a position to pay you out in 20 years.

The money that you're going to receive next year in your pension is probably all there. It's probably there getting ready to be paid out to you. It's a risk. It's a risk. What's going to happen to my company? If you have a pension plan that's in compliance, you have paid, the company has paid a fee each year to an organization called PBGC that stands for Pension Benefit Guarantee Corporation. Basically it's insurance.

It's insurance that if the company that you work for goes out of business, they go bankrupt, that your pension will be in some way guaranteed. Understand that so many companies have gone bust over the years, and transferred the liability from them to the PBGC that there is more liabilities that have to be paid out than money in PBGC. So, when your pension for your bankrupt company gets transferred to PBGC you may be looking at a huge haircut to your monthly check.

People talk about how the good old days are gone, that no one has a pension anymore. Very few jobs have a pension. You know what, that's not so rock solid. That's a defined benefit plan because it defines exactly what your monthly benefit is going to be. A defined contribution plan will tell you what your contributions are going to be, and it's up to you to grow that money as well as you can. This is a really important question, because I think a lot of people retire and they just assume, or take for granted, that that company's going to be there. That check's going to be in my mailbox on the first of every month.

Tim Mullooly: It's not always the case.

Tom Mullooly: It's not. I hope you're right.

Tim Mullooly: Yeah. "Can I avoid penalties and minimize taxes on withdrawing funds if I switch from an annuity to a Roth IRA?"

Tom Mullooly: Big sigh.

Tim Mullooly: Yeah. Oh boy.

Tom Mullooly: Okay, let's go through this question again a little slower. "Can I avoid penalties and minimize taxes," that seems to be the American dream.

Tim Mullooly: Yeah. No one wants to pay taxes.

Tom Mullooly: I want to avoid all penalties. I don't want the stock market to go down.

Tim Mullooly: I want to do whatever I want and pay no taxes for it.

Tom Mullooly: That's right, so, "Can I avoid penalties and minimize taxes on withdrawing funds if I switch from an annuity to a Roth IRA?" Oh boy. Okay. We just did a video.

Tim Mullooly: Right.

Tom Mullooly: The one thing I said in it is always, always, always, always, always money that goes into a Roth IRA is after taxes.

Tim Mullooly: Right.

Tom Mullooly: So, you're going to pay some kind of taxes before that money goes into a Roth.

Tim Mullooly: Yeah, so his question is already debunked.

Tom Mullooly: Pretty much. Okay, so what we're kind of stitching together from this question is that this person has an annuity. They may be in a situation where their rate lock is over.

Tim Mullooly: Right.

Tom Mullooly: But, is the surrender period over?

Tim Mullooly: That's a good question.

Tom Mullooly: We don't know.

Tim Mullooly: We're not sure. Yeah.

Tom Mullooly: We don't know. Understand that you may have a rate guarantee for one year, three year, five years on your annuity, but your surrender charge period may be eight years.

Tim Mullooly: Totally different thing from the rate lock period.

Tom Mullooly: Right.

Tim Mullooly: That's definitely something you need to look into.

Tom Mullooly: Yeah. If you're at or near retirement age you may be able to take money out without penalty, but remember something else with annuities, is that it's LIFO when it comes to accounting. Last in, first out. With annuities, the first dollars that come out are earned income, and it is ordinary income. Even if the money in the annuity was made through stock market gains it's going to be taxed as ordinary income. Now, I also kind of gathered from this question that this is another situation where there's an annuity inside of a retirement account.

Tim Mullooly: They seem to be popping up everywhere.

Tom Mullooly: Yeah. We're going to have to do a separate podcast about that.

Tim Mullooly: Maybe next week.

Tom Mullooly: Yeah, I know. I just, I don't know.

Tim Mullooly: Yeah.

Tom Mullooly: Okay.

Tim Mullooly: To sum that up, you might be able to get out of the penalties if the surrender period has ended, but as far as taxes there's really no way to get around that.

Tom Mullooly: Yeah.

Tim Mullooly: All right, so we've got a couple more questions here, and then we'll wrap it up.

Tom Mullooly: Okay.

Tim Mullooly: Next up, "Is it wise to start a traditional IRA alongside a Roth IRA after I just got out of debt?" He goes on to say, "I am 31 years out. I just recently got out of all my debt." Let me repeat that, "just got out of all my debt," and then in parentheses writes, "except student loans." Continues to say-

Tom Mullooly: I'm sorry for laughing.

Tim Mullooly: "I started a Roth IRA and was wondering if it's smart to start a traditional IRA as well."

Tom Mullooly: Okay.

Tim Mullooly: Before we address the question, whoever is writing this questions, you're not out of debt.

Tom Mullooly: Right.

Tim Mullooly: If you're 31 years old, odds are student loans are probably one of the bigger portions of people's debt at that age.

Tom Mullooly: Right.

Tim Mullooly: Hopefully for whoever wrote this question they have a minimal amount of student loans to pay back, but until you do you're not out of debt.

Tom Mullooly: Right, you're not out of debt. Some people say they're out of debt because they have a mortgage on their house, and even that's debatable, because their mortgage may be $400,000. It could be a significant amount of cash flow every month that goes to pay off that debt. While we're on the topic of paying down debt, one thing that I'll remind people is that when you have student loans, car payments, mortgages, whatever, when you get that payment book ... They probably don't do that anymore, payment book. Or, when you get the invoice every month and it says you owe $271, that is the minimum, that's the minimum.

Tim Mullooly: Right.

Tom Mullooly: It will take you 10 years to pay off a student loan, or 5 years, or 6 years for a car loan, or 30 years for a mortgage. That's the minimum. Want to get out of debt a little faster? Add 20 bucks. Make 14 payments instead of 12. These are the minimum payments. You can do more!

Tim Mullooly: I feel like people that are young always here, "Oh, you should start saving for retirement as soon as you can," but maybe you might be smarter to take that money that you're putting in the IRA that you just opened up and use it to pay off that student loan debt, so then you actually are out of debt, and then start saving for retirement.

Tom Mullooly: Right, so let's not put the cart before the horse.

Tim Mullooly: Right.

Tom Mullooly: Saving for retirement is always a good idea, after you've done a couple of things. After you have some kind of safety net.

Tim Mullooly: Right.

Tom Mullooly: You've got to have somewhere between three to six months of your monthly expenses in a bank account, stocked away. Then you have to start tackling your debt. Then, once those things are pretty much under control, we didn't say done, but pretty much under control, then you really need to start stepping on the gas for the next thing. Maybe the next thing isn't retirement. Maybe it's buying a house.

If that's the case, if you put money into a traditional IRA, back to his original question, you can't really use that money for a down payment on a house, not without paying taxes and interest penalties on this. However, you can use money that's in a Roth IRA for the purchase of a home.

Tim Mullooly: You can get your principle back out.

Tom Mullooly: Right, so without any kind of taxes.

Tim Mullooly: Right.

Tom Mullooly: That's a good point. I would encourage this person to consider if they had to weigh the difference between a traditional and a Roth in this particular instance, and every instance is different, but based on the information we have, in this particular instance it might be better for him to do a Roth, and fully contribute to a Roth before thinking about a traditional IRA. Even still, I would rather see him put the money towards getting rid of debt and building up some kind of safety net.

Tim Mullooly: One other thing about that. The question asks would it be smart to have one alongside the other? Not really, because you can only put $5,500 a year into a Roth or a traditional IRA. It's not like you can put $5,500 into one, and then the other, totaling 11,000. So, if you have both it doesn't increase the amount of money you can put into the accounts.

Tom Mullooly: Right.

Tim Mullooly: You really should just weigh the pros and cons of either a Roth or a traditional and pick one.

Tom Mullooly: Right. Good point. Well, thanks for your questions. Keep them coming in, because if you've got questions like this, then I can almost be sure that there are plenty of other listeners out there with the same kinds of questions.

Tim Mullooly: Absolutely.

Tom Mullooly: These questions tend to spur more questions. I know, just based on the last podcast that we did, we got a couple of folks who contacted us with some similar or related kind of questions.

Tim Mullooly: Follow-up questions. Right.

Tom Mullooly: Yeah. So, definitely if this spurs another question get in touch with us. We appreciate you listening, and we will catch up with you on the next podcast.