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Peace of Mind Always Cost Something!

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"Where should I put my money? In certificate of deposits, the stock market, Treasury bonds, annuities, or more life insurance?"

"Should I buy disability insurance, a Medicare supplement policy or long-term care policy?"

"Should I increase contributions to my 401(k) plan, IRA, or TSA?"

"Should I trade in my old car for a new one?"

"Should I refinance my house?"

Those are only some of the questions asked of me virtually every day.

My standard answer is, "Yes, to all of the above, but if you can tell me when you are going to die and under what circumstances, then I can tell you exactly what to do!"

A fact of life that, the sooner learned the better is this; **Peace of mind <u>always</u> cost something**.

For example, you should buy a long-term care policy, with the highest benefits possible – payable for the rest of your life, in case you should ever have to enter a nursing home. On the other hand, if you never use the policy, it's a waste of money.

The purchase can be compared to a homeowner's policy. If your house never catches fire, the insurance premiums are wasted. But, for a price, you will have had peace of mind, knowing that if such a terrible event did occur, you are protected.

We make certain that our cars are protected by topping off fluid levels and checking air pressure and tread wear on our tires. We have roadside assistance plans, carry mobile phones, and wear seat belts, in order to feel as safe and protected as possible when we drive our cars.

That peace of mind is purchased with time, energy, and money. We also have to spend something, or make trade offs in benefits, to feel financially secure.

The basics of financial planning haven't changed in centuries, just some of the options.

I tell my clients that they should have money set aside to meet emergency cash needs. Short-term certificates of deposit or money market accounts are ideal vehicles for this purpose.

The trade-off or cost to attain peace of mind for the emergency fund is giving up buying something shiny or loud today for an unknown need tomorrow. The interest earnings are also less than can be earned on longer-term instruments.

Everyone should save money for future needs, such as retirement. Investing in equities; stocks, mutual funds, property, etc., are ideal for long-term growth. The younger a person is, the more heavily they should invest in equities. As they grow older, the less should be in equities. Of course,
tolerance for risk plays a factor at any age.

Fixed annuities, particularly "CD-types" (where the rate guarantee period matches the length of surrender penalties) are ideal for people who want safe, long-term growth or to receive the annual interest income to live on now.

Quite frankly, I don't know why anyone would put money in long term CDs or Treasury bonds when "CD-type" annuities generally pay higher interest and grow on a tax deferred basis.

One of the hottest marketing questions today is, should someone go ahead and pay income taxes on an annuity that has accumulated a large profit in order to purchase a life insurance policy so the kids can receive a tax-free benefit at the death of Mama or Daddy.

It's a good question and deserves a long explanation, but I'll be brief about it here. Simply put, if Mama or Daddy knows she or he will absolutely never touch the money in an annuity, life insurance is probably a better deal. The problem is; there are very few people who know for certain they will never need to use the money accumulated in an annuity.

Secondly, they have to qualify medically for the insurance and that is tougher to do at older ages.

Thirdly, most Mamas and Daddys who have a lot of money are in a higher tax bracket than their kids.

Lastly, when the so-called "Annuity Tax Time Bomb" subject arises with my clients, I explain that's one of the advantages of a deferred annuity; they get to pass the tax consequences on to their children. Then, they just smile and say, "Better them than me!"

Clients Keep Asking:

Should I put my money in a CD?
Should I put it in the stock market?
Should I put it in Treasury Bonds?
Should I put it in annuities?
Should I buy more life insurance?
Should I buy disability insurance?
Should I buy Medicare supplement insurance?
Should I buy a long-term care policy?
Should I increase contributions to my 401(k), IRA, or TSA?
Should I trade in my old car for a new one?
Should I refinance my house?

It's amazing how many people call to ask my advice about buying a car. I tell them if you have the money, buy it. Because if something happens to you, I guarantee your kids will buy a new car. So, had you rather drive a new car or let the kids drive a new car with your money?

The new car example can be carried through to the annuity taxation question. Is it better for parents to pay the tax or wait and let the kids pay it?

There's no simple answer, but in general most parents prefer to build up as much cash as possible in case they need it rather than passing a tax benefit on to their children.

A parent's biggest fear is having to depend upon their children for financial assistance as they grow older.

A typical response from clients is, "So what if the kids have to pay a little tax. They are going to inherit a lot of money that Mama and I worked hard for and did without things. We did that to make certain we never have to depend upon them financially."

In summary, **the peace of mind that comes with having a lot of money in annuities comes at a tax cost to the kids. Sounds like a good deal to me!**

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