EPISODE 1695

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It's Friday, July 12th. And today's show is a new show. All about managing and making the most of a windfall. Whether that's an inheritance, a pay severance. The great wealth transfer as we know is unfolding. A record number of assets being passed down from one generation to the next. And many in our audience are wondering about this. And I've got some of your questions.

And to help navigate your questions, I have two experts on standby who are going to join us later on the show, including Pam Krueger, who is the founder of Wealthramp. For those of you who are curious about working with a financial adviser, Wealthramp is a platform that offers a bespoke matching service. You've heard Pam on the show before. I'm a fan. Pam works with you to match you with a qualified pre-vetted fee-only financial adviser that cares about your priorities, your preferences, even your price points. And if you want to learn more about that, go to wealthramp.com/farnoosh to get started.

Also joining Pam and I is Marianela Collado, or Nela, as she likes to be called. She's a certified financial planner or certified public accountant for Tobias Financial Advisers. And Nela is here because she has extensive experience helping her clients navigate the topic of today, which is wealth transfers, inheritances. She's also very experienced in trusts. And we have a question later about that. She's also one of Pam's favorite financial advisers. And through Wealthramp, clients have the opportunity to work with Nela and her team.

Ahead of all of that, hang tight. We have some really important discussions ahead of us. But here's what's going on in my community, in our So Money community. Firstly, if you follow me on Instagram – does any story end well when you start with like? So back on Instagram. But on Instagram, you may have caught a reel this week that I created on a hunch. Completely unplanned. I just did it. I had been thinking about it during the day. And I was like, "I'm just going to do it. I'm not going to overthink it." And it went bonkers viral.

Folks, I have finally made it. I have finally gone viral on the internet. And I'm here to report that nothing has changed. My life is still the same. But the topic of the reel is what surprises me. I didn't realize this was something that was so popular. I've shared a lot of opinions, and insights, and advice on all sorts of things. But this topic about running chores and allowances in our house, and how we're doing it, how we're attempting to do it has gone viral. Over 1.5 million views in like 48 hours. I'm officially now the allowance lady.

And if you haven't caught it, I just want to take a second here and tell you the gist of how we're doing this. And this all started basically over the weekend. I kind of had a meltdown basically, like a parent meltdown, where I was like, "These kids –" literally, I think it was my son who was on the couch and he was like, "Mommy, can you get me some water?" And I was so tired. It was like 7pm. And I'm like, "Evan, just please go get your own water. You have arms. You have legs. You know where the water is. I've had a long day." And he goes, "Well, I've had a long day." I'm like, "Really? What's your long day? What's your long day, kid?" I got the water for him.

But on the way to getting the water, I said, "That's it. No more. We are going to officially –" this is on me too. Because I have tried to start allowances with my children in the past. It's been difficult. Because they have an age gap, right? My daughter and my son are three years apart. More or less. And interestingly, she, my younger 7-year-old, is more enthused, and ready, and willing to help out around the house. My son is not. And at least he wasn't.

And now they're kind of on the same page. Okay? They're both motivated by money. They're both motivated by accomplishment, and finishing tasks, and accountability. And they work well together in some cases. I was like, "Let's come up with a plan where we're going to have chores." And I need to be on board just as much as them. Because it's hard for me and my husband to keep on top of them. They're kids. They don't remember. They fall off the bandwagon. I get tired of reminding them. I forget to pay them. All these issues. Right? Which, hey, I know. I'm not alone here.

And I think that's why this topic resonated so much with my audience and new people who've discovered me since this video went viral, that people need more advice on this topic. Because it is draining. It's like you feel like you're running in circles. You know you want to do something. But what is the thing?

Here's what we're attempting. Now, I caveat this and say that this could completely change in the next week. I also fully assume and anticipate meltdowns, and fights, and arguments. But it's been 5 days since we've implemented this. And so far, so good.

Our framework is the following. Again, my daughter is seven and my son is 10. The video said, "In our house, we pay well for chores. But there are rules." There are rules. Now we have a daily list of chores. I thought about putting these on a board. I haven't gotten to that yet. The list is not long. They're pretty easy to remember. And I guess we don't really need a chore board even, because here's why. While we pay handsomely – and we pay $15 per week per child. That's $60 a month if you're doing the math. Before anyone falls back in their chair, I know this is above market price. I've often talked about how the rule of thumb, if you're not sure where to start, is give your kid a dollar for every year of their age per week. If you have a 10-year-old, $10 a week. 7-year-old, $7 per week. We are way above and beyond that. I know. It's a lot.

But here are my rules – and I'll tell you the chores later. But here are the rules. This income, you earn it only if you do every single chore every single day for the week. It's all or nothing, my friends. Of course, you're going to get sick. There are days when we're not home. We're on vacation. Actually, one day this week, my son had a long day at camp. They went on an off-site trip. We had to pick them up. And we didn't get home until like 8pm.

I'm not going to make them do the dishes because there're no dishes to be done. We had dinner out. Okay? I'm reasonable. But if they don't do what's expected of them on a day when it is expected of them, there are consequences. Rule number two, they have to save 10 of the $15 that we provide them every week. What is that? A 67% savings rate.

And so, while, yes, the $15 is a lot, what they can spend is really just five. And the other 10 has to go into a savings account. We use a GoHenry account. I don't work with GoHenry. It's just what we have found to be easy. They give you a debit card. And that $10 a week that they must save must be saved for at least 3 months.

Now we're starting this in the summer. I looked ahead and I said, " Okay. By the time November rolls around, they're going to be creating their holiday wish lists. I think it's a good time to have this lump sum." By then, $10 a week times three months, that's over $100. But it must be budgeted to include, and here's where I'm going to encourage team te work, any gifts. And they may choose not to buy gifts for each other. But if they want to buy gifts for their siblings or their family, they have to use what's in their savings accounts.

And so, here's how I foresee this playing out or in theory. Right? If my daughter gets lazy one day and is like, "I don't want to do my chores." Well, it's also going to affect my son. Right? Because that means she's not going to have money in her budget to potentially buy him some gifts later this year. And they always want to do that. I know them.

And here's the thing, you have to know your kids. You have to know what motivates them. My kids are very motivated by money. They know that it provides them with options. They love the autonomy that comes with it. And I want to be able to foster that. But I also want to make sure that the chores get done. Because this has been great for my husband and I, to be honest.

After dinner, it's usually us doing all these things, which is here's the list. Okay? Clean your rooms and make your beds every day. It doesn't have to be in the morning. Because mornings are rough. I get it. I'm not a tyrant. But if you know me, I've been known to make my bed right before I get into it. And I'm not encouraging that with them. But if they don't make it in the morning, then when they come home from camp, and it's the summer, they have to go to their rooms and make their rooms and their beds and be done with it.

Then they rotate between setting the dinner table and doing the dishes every week. Right now, this week, my son is setting the dinner table and my daughter is doing the dishes. My son is taking out the trash every day or whenever it needs to be taken out. Actually, yesterday, the trash wasn't full and he took it out. And we said, "In the future, don't do that. You can get a pass. Because that's wasteful. We want to use the full trash bag."

Then they have to keep the basement clean and tidy. And this isn't an everyday chore. But once a week, they need to go down there, check it out. Make sure that things look sane. That it doesn't look like an earthquake happened. That's the list. It can grow. And how I come up with this list is just I know them. I know what they're capable of. I know what's doable for them. What's a little bit challenging? And they're taking a lot of pride in it. They know. They know that this can be very rewarding. And it can also mean that they can get nothing if they don't cooperate. And it's also encouraging them to negotiate.

Early on in this, my son and daughter, they were having an offline discussion about who was going to do what. They were seeing if they could maybe trade. Because I know there's one chore that they're going to flip every week, which is setting the dinner table. And so, Evan suggested, "Hey, can I do that? Because I'm not really into doing the dishes." And my daughter said, "Sure. That's fine."

Again, it's been 5 days. And one day, they were kind of off because we had that long night out. And it's the summer. And I actually think the summer can be a great time of the year to implement these sorts of rituals, and practices, and experimentations with your kids. I'm fully prepared that in the fall, with their schedules changing, that some of these tasks may shift. They may be replaced. But 1.5 million views, everybody. This is what you're telling me. This is the content you want. What have I been doing with my life all these years?

One last bit of news before we go to the mailbag. I just want to give a final, final reminder to anybody out there who would like to work with me and be a part of my mentorship program. My applications for the next cohort, which we kick off in August, ends this weekend, on Sunday. I have stretched that. It was going to be today. But I'm giving everybody their weekend to think about it. The application is at farnooshbts.com.

If you've been listening to this show, if you've been subscribing to the newsletter, you've probably heard about what this is. But this is my once in a while offer, where I like to take some entrepreneurs, and creators, and small business owners under my wing to show them if they're interested to learn about all of the ways to make all of the money as a creator and brand builder. Someone who uses her personal brand, that's me, to essentially create a thought leadership business that spans podcasts, and books, and speaking. Who appears regularly in the media. How do I do all of these things? What are my strategies? What do I charge? How do I negotiate?

This is a tell-all experience. It's four months. And it's a very, very small group. You would get a lot of access to me and others in the group like you who are ambitious. There's a lot of resource sharing. There's a lot of advice giving. Last call for the year. This is going to be my last cohort this year. Go to farnooshbts.com and fill out that application. And I will be in touch very, very soon after that.

Okay. Joining me now is our friend, Pam Krueger. Founder of Wealthramp. The largest fee-only network of top independent advisors. You've heard me say it before. And I will say it again. If you're seeking a financial adviser, which I know many of you are, or a planner, you want to work with someone to help you with your retirement goals, your investment strategies, any financial goal, I highly recommend connecting with Pam.

She helps every single person who comes to Wealthramp, her company, identify the most suitable expert based on your needs, your goals, your budget, all of it. I have partnered with Pam and Wealthramp. And you can go to wealthramp.com/farnoosh to get started.

And special treat. We not only have Pam with us. We also have Marianela Collado, or Nela, as everyone calls her. She's a certified public accountant and a certified financial planner with Tobias Financial Advisors, which is a fee-only independent firm in South Florida. And fun fact, Nela is an adviser on the Wealthramp platform. Maybe you'll get paired with Nela when you go to wealthramp.com/farnoosh.

But Pam, Nela, thank you both for hanging out with me this Friday. Our topic is inheritances, lump sums. We know there is this thing called the transference of wealth. We keep hearing about it. And I know it's on a lot of our audience's minds. What to do with a lump sum? I know, maybe it's a good problem. But you also want to be careful and mindful. So we're going to offer some strategies. But thank you so much for agreeing to coming on and making this our topic today.

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PK: You're so welcome. Love being here.

[00:14:20]

MC: Thank you.

[00:14:22]

FT: You two know each other, right? You two go way back.

[00:14:25]

PK: Oh, yeah. Oh, yeah. We know each other. Yes.

[00:14:29]

MC: Pam is the fee-only inspiration. That's what she inspires all of us to be really passionate about what we do. Thank you, Pam, for all your efforts and the fee-only network world.

[00:14:39]

FT: Yeah. I mean, just to give the audience a little bit of the behind-the-scenes. Pam, you run Wealthramp. And Nela works for Tobias Financial. But also is one of your go-to favorites when you're looking to pair someone up with a financial planner, which is what Wealthramp does. It's sort of like the matchmaker. But you're really careful about who you work with.

[00:15:02]

PK: I'm the adviser matchmaker whisperer. Yes. People come to me when they are often overwhelmed with, "Look, I know I want an advisor. But I can't slug through the thousands of potential advisors that would work with me." That's where I come in. And I have already rigorously vetted Nela and 229 other advisory firms that are in the Wealthramp network.

And Nela works for her own firm. They are independent advisors. They don't work for me. I have gone out and curated them, and harvested them, and brought them and invited them into the network because they fit the criteria I'm looking for. And I vet these advisors and monitor these advisors. I make sure when I make the match, it's going to be a really good match. And you don't have to spend your time worrying about doing all of that vetting and fretting.

[00:16:01]

FT: Awesome. Nela, you're Pam-approved. I love it. Nela, I understand that you help many of your clients make the most of their inheritances. This is a big category. And we know inheritances, it can come in many forms. Right? It can be cash. My husband inherited an IRA from his late aunt. Real estate. And, look, it's beneficial in the end for many of these recipients. You're richer than you were yesterday, I suppose. But there are a lot of issues that can come up. Issues that we don't always think about or we're not prepared for. What do you see as some of the common issues or complexities that you're often helping your clients with when they first receive an inheritance?

[00:16:40]

MC: Yeah. And I love that you're bringing this up, because there's so many opportunities when someone is just informed of an inheritance. We recently had a client that received an inheritance via trust. And we were able to save them over $200,000. Because what's supposed to happen when someone passes away is the infamous step-up in basis. And sometimes custodians aren't catching that there's supposed to be a step-up in basis. All of the built-in gains are supposed to disappear.

But sometimes if custodians – if it’s stocks, right? They're not adjusting the basis of those individual holdings on the date of death. Basis is supposed to be brought up to fair market value. And if they forget to do that and nobody catches that, they're paying tax on what they shouldn't be paying tax on.

[00:17:33]

FT: Wow.

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MC: Sometimes it's a home. They don't realize that the basis is now the fair market value. They can sell it the very next day and there's no capital gain. But one of the things that is overlooked inside a trust, sometimes even though the inheritance is coming through a trust, that trust might have provisions that allow the assets inside the trust to get a step up in basis. And that's the recent situation where we were able to save the client over $200,000 in capital gains tax.

[00:18:07]

FT: Step-up invasive –

[00:18:09]

MC: In basis.

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FT: I was 10-years-old when I learned about this. Okay. That's referring to the adjustment in the cost basis of an inherited asset to its fair market value, which you say a lot of people overlook.

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MC: And it's overlooked. Especially in a trust, when you have the opportunity, maybe the creator of the trust made an election to allow the assets inside the trust to get that step up when they pass away. And people don't realize that it's in there.

[00:18:37]

FT: Yeah. Well, all the good reason to maybe work with an expert when you get the inheritance. Our audience, over the many months, has been asking questions about these lump sum inheritances. A lot of times, transferences of wealth from a parent. But this first question I want to talk about is a severance that came in the form of a payout in the aftermath of a layoff, which I wanted to talk about. Because I think a lot of us, sadly, are in this camp where, I guess bad news, you're laid off. Hopefully, good news, you've been given a severance. And that always is different depending on your time at the company.

In this case, with Katie, she's received $35,000 in severance. This is from a tech company where she was let go. She'd been there for seven years. And these are her words. She says, "The lump sum feels scarier than the bi-weekly checks that I expected."

She's 35. Katie is renting a home with her partner in a high-cost living city. They don't have a plan to start a family or buy a home. She has a Roth Ira. She has a 401(k). She's got a brokerage account. And all of these accounts total about $800,000. In the grand scheme of her net worth, this 35,000 is a small fraction. But she's like, "I just want to feel like I'm kind of making the most of this severance check." She also has stock with this former company and has options that she has yet to exercise. I think she also mentioned the company went public prior to her getting laid off.

And so, with all that, she's got about 200,000 liquid sitting in a money market account. Originally meant for a down payment on a home. But now they just want to be renters. What do we advise for her to do with this 35,000? Part of me just wants to say go on a vacation. Go on a safari. She's done so much.

And let's not forget that there is an aspect of when you get laid off and you're about to get back into the job market, you want to give yourself some time to recoup and collect your thoughts. Because maybe you don't want to go back into the tech industry. Maybe you don't want to stay in the same career. I kind of want to give her advice that's financial. But, also, maybe making this money meaningful in a way that could help her also feel more energized and ready to go back and do something that she's excited about.

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PK: Yeah. It's such a good point. Because everyone thinks of financial advice as, "Okay. Let's look at the numbers. Look at your quarterly – oh, the market went up. The market went down." And in this case, this is such great detail that it really paints a picture. And Nela will address the nuts and bolts of it. I'll just be the peanut butter to her jelly, I guess?

What I want to say here is this is fantastic 35-years-old and has this 35,000 in the context of having this nest egg that they're already saving for. And I know – I'll defer to Nela on the details. But this is what where I would come from on this personally. Looking at the life side of it, too. I would really consider socking away more money for your emergencies in an emergency cushion. And I say that because you can park money in a bank account at 5% these days and just get paid to kind of wait. And the reason is because if you're not working – and just as Farnoosh said, if you decide you want to pivot your career, you need a bigger cushion. A bigger emergency cushion. For me, that would be what I would do with the 35,000. But let's hear what –

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FT: Yeah. Nela, what do you think?

[00:22:25]

MC: Yeah. And I think every time there's a change, change is not always comfortable to people. But I think change allows us to reflect, as you said, Farnoosh on values. And what's important and meaningful in our lives? And I think when there's a break, especially if it's unexpected, it allows you to kind of sit back and review. What is it that you want out of life? And where do you see yourself going?

If a person like this, if Katie wants to take some time and give herself the time to re-energize, she may want to look at her budget. Kind of think about what life is going to cost for the next 6 months, 12 months, whatever time period she thinks she needs to reassess where she wants to go. And then like Pam said, earmark that in a money market.

To me, this is short-term money. I wouldn't look to try to get sexy with this. I wouldn't put this in the market. Just because we don't know, right? We're in an election year is the other thing that people need to be aware of. This is not the time to put funds that you may need within the next 6 months or 12 months into the market. That's not a risk that I would like anyone to take.

Now, as you mentioned, she's got 200,000 in a money market already. I think once we've gone through her cash flow needs, maybe reassessing what are those long-term goals so that we can align a bulk of those savings, because it is a lot of cash, into sort of this long-term plan that she has. Whatever her vision is for retirement, future.

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FT: It kind of reminds me of a question we got. I think it was last week or two weeks ago where – and I think, Pam, you were on that show, where one of our audience members wanted to know like, "What do I do with my money? I don't have goals." And it was not a situation where she didn't have enough money. She actually had I think hundreds of thousands of dollars. She had been an incredible saver. But was like, "What's it for? I don't know."

And I think that that is something to sit with. And that is something important to figure out. And I'm not saying that our friend here doesn't have goals. But there are those people who get 35,000 and know exactly what they're going to do with it. Because they know. They have a wish list, a to-do list.

And not to say she should go back and try to buy a home or do these traditional things. But maybe think outside the box. I mean, what are your wildest dreams? Hopes and dreams, Katie? I want you to think about it. Because you've earned – not only does everyone deserve this. But you have earned this. You have created a cushion for yourself. And now you get this windfall from your previous employer. It's kind of like the universe telling you like, "Hey, do something for yourself now." You've done a really good job of squaring away your future and working to save up and bulk up your retirement. But, okay, do you want to start a business? Do you want to open a winery? Do you want to just travel the world and take nicer vacations?

[00:25:25]

PK: Yeah. It gets you thinking about what – it's prompting you to think about what do I want to do with this? But one quick note is that the thing that I think about when I talk to people like this, when I'm talking to people through Wealthramp, is she's probably a really high-earner in the tech industry, which is why she's been able to put so much money away. It's fantastic.

But the only thing – the flip side to that is that we don't know how much she's spending. We don't know if in a high-cost – because, remember, she mentioned she lives in a high-cost area. 100,000 sounds like a lot to us. 200,000 sounds like a huge amount of money. But if you're talking about taking real time off and you're used to a lifestyle where you're spending a lot of money, that might not be as much as we think.

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FT: Doesn't go that far. Yeah. That's true.

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MC: Right. And I love that Pam brought that up, because that's why you have to look at cash flow, right? It sounds like a big windfall. But you might get through this in three months or six months. And then, all of a sudden, what are we going to do with ourselves? It might sound great to go on a cruise.

You mentioned something that would prompt someone to look at this from a tax perspective is those stock grants. What are we going to do with them? Company just want IPO. Do we hold on to them? If they're grants, do we exercise them? What are we thinking the stock is going to do going forward? Do we do an exercise and hold? There's a lot of planning here that she could be really smart with. And if that's a concentrated position that also poses a risk to her, then she may want to diversify out of some of this stock.

[00:27:02]

FT: Yeah. Yeah. That's a good point. It's a really good point. All right, Katie. Lots to think about. Thanks for your question. Ruth has a question also about an inheritance but in the context of having student loans. Ruth's husband, she has what she calls an albatross of student loans of over $240,000. And at the same time, the couple is set to inherit about $50,000 from a parent. Should they use this money to pay off the loans?

A little bit of background Ruth provided us. She says, "We both contribute to 401(k)s. We have four months' worth of emergency savings and no credit card debt. Her income is solid. Smaller though than her spouse's. They have a mortgage with about 28 years left on it. But the interest is really low. They bought it during the pandemic. The home is appreciated very nicely. No kids. But hoping to be pregnant this year. Should we be putting amounts like that towards the student loans or towards other goals like home renovation or college fund for our future kids?

A lot of this debt, by the way, is also federal. I've since caught up with Ruth and she did say that her husband is on a payment plan already with the government. That's good. That said, it's still $240,000. And I know that with that amount of debt, getting a lump sum like 50, you feel, instinctively, this should go towards that because it's just hanging over you and maybe feeling really uncomfortable about it. But what's the smart money do? Who wants to go first?

[00:28:44]

PK: Okay. I'll just take again the bigger picture for me. Because I'm dying to hear what Nela has to say for the advice part of it. But I know you want to get rid of the albatross. So do I. I would be in that exact same position. But with thinking about getting pregnant, and future college, and retirement, I kind of want to say take care of yourself first with your own money and look to every program that's available.

Remember, during the Obama Administration, a lot of programs, payback programs that could shorten the life of the loan, federal programs, came up. If she's already – if they're already taking advantage of that, that is fantastic. Let the government and let some of these programs help you then dig into your pocket.

I mean, I hate to say it. But I would string it out as long as possible. And I would make that my last priority. I understand it's an albatross. But it's not as big of an albatross as, say, having a mortgage or other things that are really immediate family pressures. I'm not saying you're not going to keep making payments on time, obviously, and keep paying it off. I just wouldn't rush to take new money and put it toward – I don't know. Nela, what do you think?

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MC: Yeah. I have a couple of thoughts. We had a client, he had about $400,000 in student debt. Ruth should feel somewhat comforted with 240. I think like Pam said, exploring avenues where there is potential forgiveness. If they work with a tax-exempt organization, there are programs that, once you meet the annual qualification process, the loans would be forgiven within 10 years.

Before, I look to pay down any student debt. I would look at whether there's a possibility to get on a program. Sometimes valuating. Do I change my employer? Do I take a pay cut today to work for a tax-exempt organization that's going to make me eligible for forgiveness in 10 years? And you might say, "Kind of doing the math, this is a big debt." It's a big cloud over someone's shoulder. If you think about taking the pay cut today for a big forgiveness later, it might make sense. That's something to evaluate.

And then if that's not an option, then I'm always going to look at what is the rate of return I'm getting in my investments, in my assets? Versus what is the rate that I'm paying on this debt? If there's no potential silver lining on debt forgiveness, then maybe you do want to pay down debt that it doesn't make sense to put cash in this account earning 5% if the debt is costing you 8. Once you have exhausted potential forgiveness programs and that's not going to work, then evaluate savings rate versus debt rate.

And then I'm with Pam. I say take care of yourself first. Because the biggest gift is our own financial freedom and our financial security. And I love my parents for that. The fact that they're 75 and travel. They don't have to ask us for money. To me, that's the biggest gift and the biggest inheritance they gave me is their own financial freedom. I'd say that you only think about funding college savings after you've ensured that your own financial security has been met.

[00:32:15]

FT: Well said. That is true. There's no Stafford loan for a retiree, unfortunately. Thank you both for that answer. Ruth, good luck. Karen has a question. She has inherited her mother's share of their parents' family home as well as her mother's Roth and the IRA. She's considering buying her own home now. And she understands that first-time home buyers are eligible to withdraw

$10,000 from a retirement account if the account is over 5 years old. I think this is Roth, right, that allows for this?

Would she still be eligible to withdraw from her own retirement account as well as her mother's retirement funds to buy a house if she has partial ownership of the parents' home? Really, the issue is like would I still be considered a first-time owner if I've inherited this home, which I didn't buy directly? I inherited it. But I guess it gets a little confusing. Do you have any experience with this, Nela?

[00:33:23]

MC: Yes. Yes. Yes. Yes. A couple of things. First, Karen should know that they changed the rules for retirement accounts. This is huge. There was a little piece of legislation that was passed right before COVID took over. And then it was completely overshadowed by the CARES Act. And this was called the SECURE Act, which left us feeling very insecure. Because this piece of legislation really ripped the rug from under all of the planning that we had been doing for years.

And what that piece of law did is that when you inherit an IRA and you're not a spouse, you have to fully distribute that IRA within 10 years. With respect to this situation, she's going to have to take the inherited Roth out by year 10. She can take any dollar amount out of a Roth and there's not going to be any penalty subject to it, because she has to take it out by year 10. She can take it all in year one. She can stretch it over 10 years. But there's no limitation on what she can draw from that inherited Roth. That's one point. That might solve her question altogether.

And two, you hit the nail on the head. She's no longer a first-time home buyer because now she owns a home. Really, she doesn't have to worry about it, A, because she can take anything she wants out of the inherited Roth. And B, she's not a first-time home buyer. So that's going to be irrelevant.

But, also, there's a very quirky rule with Roth IRA that you created and you fund it. And it's called the FIFO. FIFO is normally an accounting term, which I love. But that's first in, first out. If you set up a Roth IRA and you put in a dollar, you can take your dollar back. That's what comes out first. And you can do that penalty-free.

[00:35:25]

PK: And that's her contribution.

[00:35:27]

MC: Your contribution.

[00:35:28]

PK: Nela, just breaking in real quick. To make it clear, you're talking about the money that you put in. That's your contribution separate from your earnings.

[00:35:34]

MC: Correct. Correct. The dollar that goes in first is your contribution. And so, you can always pull your dollar back and not have to pay tax or penalty, because it's a Roth. The only time you run into some limitations is once you're talking about earnings, as Pam mentioned.

[00:35:50]

FT: All right. All in all, I guess good news. Good news for Karen. Yeah. All right. Last question from the audience. And then I have a question. But Mary wants to know about – you know, there's some complications with Mary. Basically, long story short, she's 30 and she has a brother who is severely autistic. Has and always will need full-time care.

She says Medicaid pays for most of it, thankfully. But she's recently learned that each state has what's called Medicaid Estate – has a Medicaid Estate Recovery Program, which will attempt to recoup state funds spent on a disabled person from their estate, which is a bummer. And here's why it's especially a bummer for Mary, because her parents have put money aside for her brother in a trust. She's also a beneficiary of the trust in the event that her brother passes before she does, which she thinks is likely, because his health is poor. Will that protect any money they've saved for his care? Will this trust protect any of the money that they've saved for his care? Will his current guardian, which is their mother, or her, the legal guardian, in the future be on the hook for any of this estate recovery?

She says I assume that I will not be eligible to inherit anything from him. But I'm concerned about my parents passing away first and then leaving us something jointly. What are your thoughts? Should I be doing anything now to protect myself and my family from future legal headaches? I wonder if this also – I do not know. This is way above my intelligence. But I wonder if her mom should get re-involved with her in this estate plan that they've put aside. Do we need to reopen the estate plan? Her mom is still alive.

[00:37:41]

MC: Yeah. Pam, did you want to take some high-level remarks? Or do you want me to go –

[00:37:48]

PK: Okay. I'll do the big picture color. Okay. Here's where –

[00:37:52]

FT: The global frame, as we say, in the author world. Yeah.

[00:37:55]

PK: That's me. As I'm listening taking all this in and hearing it from others who come with similar questions, this is where I just want to say there's so much legal, estate, planning, financial, emotional, family and all of that. That's why you guys – that's why I feel so strongly that this is not the kind of thing you can just go in and go, "Oh, yeah. I need a financial advisor." This is why – and, thankfully, we didn't know we were going to get this question. But, thankfully, Nela is one of those advisers who does have a sub-specialization in special needs, trust, and planning. And that is a specialization. Not every adviser offers it. With that, I'll step aside.

[00:38:38]

MC: Yeah. When I saw this case, I thought, "Oh, Mary's going to be super happy with what I'm about to tell her." Because, yes, yes, and yes. Yes, we should make sure that we're revisiting your parents' estate plan. Because we have to make sure that the language is such that enables the share that's for the brother, for her brother, whose special needs that it has special language to make it what's called a supplemental needs trust.

Mom setting up a trust for a special needs child that has this language that says, "In no circumstance should this trust be considered a primary resource to fund the special needs beneficiary's expenses. Government assistance comes first. And only to the extent that government assistance is not covering expenses that that beneficiary needs should the trust be used.

What that means is that this inheritance will not disrupt the government-provided benefits. Check. Right? We want to make sure that happens first. And, secondly, because this is what's called a third party trust, the inheritance is not going first to the special needs brother and then he says set up a trust. That's really bad situation. But this is the parent setting up a trust for their children, one of which happens to be special needs. This is known as a third-party special needs trust. This has no clawback. There's no repayment of government-provided assistance. Right. Because this is a third-party trust.

This is a very special distinction, because this is a third-party trust. Not a first-party trust. Whereas if you and I choose to take all of our assets and put it inside a trust to be able to take advantage of Medicare benefits, that's going to be considered a first-party trust where there is clawback and Medicare payback. Very, very different.

[00:40:43]

PK: Nela, can I ask a dumb question in between here? For Mary, really, the answer to the part about are they going to come after me for those benefits? The answer is, because it's a third-party trust, she's safe.

[00:41:00]

MC: She's safe. She just wants to make sure that the mom's trust has all of the language in there to ensure that it is treated as an irrevocable trust for the benefit of the – I would almost split it, so that you can have one for the brother one for the sister. And the one for the brother has all of the special need's language. And then when brother, if he passes away first, then it reverts back to her trust. That's generally how I like to structure this for my clients when there's ever a special needs child, is protecting the special needs child. But also making sure that when that child passes away, it goes to the siblings, the surviving siblings.

[00:41:41]

FT: Wow. I love my audience. They ask the best questions. And they're not afraid to really get specific, which is great. And I'm so grateful that you both were able to be on. I mean, Nela, you're kind of a triple threat. You are a financial planner. You are a CPA. And you happen to have this encyclopedic brain about trusts and estate planning as it pertains also to special needs families. What? What?

[00:42:08]

MC: I'm telling you, that's the way we roll here.

[00:42:14]

FT: Well, because you're such a wealth of knowledge, Nela, I didn't want you to leave the show without – I wanted to ask you a little bit about taxes and inheritances, or even just lump sums. I know even if I get like a bonus from my employer back in the day when I had an employer, I get all excited. And then I would see the IRS take 40%. Because bonuses are taxed at a higher tax rate.

And so, are there – I don't know if this is – we can summarize this. But what are your best tips or things you want our audience to know about the tax implications of receiving a lump sum? And maybe we can just focus on inheritances here, since that's kind of the theme. But when they get a family inheritance, what are usually the tax considerations? And should they work with a CPA?

[00:43:00]

MC: Yes, yes, and yes, Farnoosh. There's always some tips here. You should –

[00:43:06]

FT: I have leading questions only on this show.

[00:43:10]

MC: You should always seek professional guidance. Because every time I get the client that says, "Well, I did this." And I'm like, "Oh, why?" As far as inheritance, one tip, if I could tell the whole world this, is don't try to do your own estate planning by shifting assets from mom and dad before they pass away. Right? I see this a lot where they're like, "Oh, we did our own estate planning. And I'm on the title." And I'm like, "No." A, you've just shot yourself in the foot with the step-up in basis. Now what could have been a tax-free inheritance, right? You could get rid of capital gains. And inheritance is not subject to tax for the recipient. There's no tax for the person receiving the inheritance. But if you've changed title, gifts have what known as carryover basis.

[00:44:02]

PK: Right. I think we talked about that once, Farnoosh. Or somebody was talking about the fact of, "Oh, I'm an adult child. My parent is talking about putting me on the title of a house." And the answer is a hard no. Don't do it. Just for the reasons that Nela mentioned. Because you want to inherit. You want to get that step-up. Whereas if you sold it, and your parent died, and you're on the title, you are going to pay humongous tax.

[00:44:32]

FT: Right.

[00:44:33]

MC: I had a call not too long ago, and it's like, "Oh, we put my mom's house up for sale. It's going to sell for a million dollars." I said, "Oh, that's great. When did she pass away?" And it's like, "Oh, she passed away three weeks ago." "I'm sorry for your loss." I said, "Well, that's great. So then you would get step-up in basis. Right? Was the property in her name when she passed?" "Oh, no. We had put it in my name five years ago." I'm like, "Oh, my God." Basically, a gift carries over its original basis to the recipient of that gift. It's not like a bequest or an inheritance. That's one thing. I want to make sure people – don't put your kids on the title.

[00:45:14]

FT: Why do they think that's a good thing? They think they're – it's just – this seems to be –

[00:45:19]

PK: Because they think it's going to be more direct. They think, "Well, why would I wait until my parent dies?" It opens up a can of worms. Imagine you have a husband and you're the person owning the house. You're the parent. And now your son-in-law is telling you, "Oh, you can't do that kitchen renovation, mom-in-law, because I now own part of this house." Oh, my God. No. Don't do it.

[00:45:44]

MC: Yeah. And the other thing people don't realize is your primary residence usually has the highest level of asset protection. Like here in Florida, your homestead is sacred. And once you've added another person to that title, you've now opened your exposure to the creditors and predators of this other person whose house – this is not their primary residence. They don't get the same level of asset protection as you do, because it's your primary residence. That's one thing on inheritance. And I always see these files.

And then you had asked about bonuses and lump sum payments that are taxable. There's usually some planning opportunity with bonuses. A W2 is a W2. It's probably the hardest thing to plan around with. But even there, you can look to maximize contributions to employer-provided programs. Look at things that you can do that are above-the-line deductions in a year where there's potentially a big windfall.

I just had a client yesterday. He's looking at an employment opportunity with a private equity backed company. He's like, "Nela, are there things I should consider?" I said, "Oh, my God. Yes. If there's one thing you're going to do is you're going to do this little thing known as an 83(b) election." He's like, "What is this?" I said, "Well, some of your comp is going to be made up of units in this private – in this company. And so, because it's a startup, usually the value of these shares when they first hire you is zero. You're going to do a little 83(b) election and you're going to say, "Here, IRS. Even though I have invested in these units that they just gave me, I want to go ahead and report this as taxable income today based on the value of the shares today, which I just told you is zero."

[00:47:33]

PK: It's graduate school tax plan with Nela. But it's true that – I did it myself. I mean, I did the 83(b) election myself, because my business is a startup.

[00:47:41]

MC: And so, what you're doing is you have converted what would be ordinary income at the time of vest. You've created that growth and value from ordinary income to long-term capital gain. You went from potentially 37% tax rate to 23.8. And it's a little form. And I see people miss it all the time.

[00:47:41]

FT: I could have benefited from that at some point in my career or many points in my career. Oh, boy. Okay. You live, you learn. You listen to So Money, you learn.

Thank you, both, so much. Pam Krueger and Nela. If we want to connect with Nela, we just call you, Pam? Make it happen?

[00:48:21]

PK: Yeah, call Farnoosh.

[00:48:23]

FT: Call me. Right. Yeah. I'm involved. Wealthramp.com/farnoosh. Find your match. And if you have a specific request for Nela, let them know at wealthramp.com/farnoosh.

Thank you, both. This was such an important episode. This is big stuff we're talking about. And I appreciate the audience for trusting us and asking us these questions. Nore next week. Thank you.

[00:48:48]

PK: Thank you.

[00:48:49]

MC: Thank you. So much fun. Thank you.

[OUTRO]

[00:48:51]

FT: And that's our show. Thank you for joining us this Friday. Stay tuned for next week. We've got the author of *The Myth of Making It: A Workplace Reckoning*. Author, Samhita Mukhopadhyay joins us. And for all my real estate lovers out there and for those of us who are hoping, crossing our fingers to buy a home in the next, I don't know, century, we have the chief economist from Redfin to tell us what is happening in the real estate market. What we can expect in the fall? And why right now might be a better time to buy than when interest rates potentially drop in the fall? That's our show next week. Stay tuned. If you like what you're listening to, remember, leave a review. Subscribe. Tell your friends. Share. I hope your weekend is so money.

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