Todd: [0:00:18] Hey everybody, welcome to another edition of The Prosperity Podcast, this is No BS Money Guy Todd Strobel. Once again, we're fortunate enough to have bestselling financial author Kim Butler as my cohost in the house with us today, welcome Kim.

Kim: Thank you Todd, looking forward to part 2 of high school education especially in the financial arena.

Todd: Yes, we've actually been able to obtain some financial literacy quizzes that are given to high school students so we're gonna kinda go through those and the point that we have noticed so far is the questions that are being asked are not really probably the most relevant tools that our kids really need to be able to go out in to the public and take care of themselves, what do you think Kim?

Kim: Well, it definitely cracks me up when they start talking about high net worth and stock market tips and that kind of thing because most high schoolers are not gonna pay any attention to that. They may play the stock market game in their high school econ class or what have you but that's I think funny too because they think the only definition of the word investment is stock market, they're just not taught other things and it's definitely something that is of great interest to me is helping high schoolers. We've got a book coming out in another month or so called Busting the Interest Rate Lies which takes a high school kid all the way through his life and all the various things around interest that he needs to deal with and his lifetime so good discussions, happy to go through and take a little bit of a throwback and be back in high school and answer them for you.

Todd: Super. We're gonna jump right in now to the savings and investments quiz. So question number 1: is the annual interest you would earn on a savings account from a bank is A: typically less than 8%. B: may vary from month to month and it might be a negative number. C: is typically more than 8%. Or D: generates income that is never taxed.

Kim: Well, since I can't pick none of the above again, I would like to pick number 1 which is generally less than 8%. It interest me that they used 8% as their dividing line because that's an interest rate that I've used as my dividing line for many, many years feeling like savings is less than 8, investment is more than 8, good debt is 8 or less whereas inefficient or bad debt is more than 8. So that's cool that they picked up with 8% mark but what are savings accounts paying these days? Less than 1 and that is taxable.

Todd: Correct and it does vary from month to month because you don't, unless it's a certificate of deposit, you do not control what the bank pays you, correct?

Kim: That is correct.

Todd: Alright. Question number 2: mutual funds pool deposits from investors to purchase securities, which of the following is true about mutual funds? A: investors do not have to pay taxes on gains from mutual funds. B: you can invest in mutual funds only when you pass your

18th birthday. C: mutual funds are typically less safe than certificates of deposit. Or D: mutual funds cannot be bought in retirement accounts.

Kim: Well, that's kind of interesting. I would like to answer 2 because 2 and 3 both you cannot buy mutual funds until you're 18, my son tried and we literally could not do it but then mutual funds are also riskier than CD so I'm not sure what they're looking for there, elaborate a little for me.

Todd: You can invest in mutual funds only when you pass your 18th birthday so I think you're saying the same thing, you have to be 18.

Kim: Yup.

Todd: Okay. And then what about the taxation on mutual funds?

Kim: Well, they're definitely taxed typically as income. There are some mutual funds that will try to pass themselves off as tax efficient and have more of the fund taxes capital gain than as regular ordinary income. I doubt that these high schoolers went through a taxation class in any form so they're probably not even gonna know the difference but for the listeners out there that do, typically mutual funds high, high, high percentage or ordinary income because those funds are trading the stocks constantly and very, very little is left over for long term capital gains, even if they are so supposedly tax efficient funds.

Todd: Got it. And just as an example for our listeners, if you've invested money in a mutual fund and the fund itself has lost money for the year but yet a couple of the investments inside the fund were sold, meaning that they sold a particular stock, you are still required to pay taxes on the gain made from the sale of that stock even though your overall, your mutual fund is worth less than it was at the beginning of the year, correct?

Kim: Yup, big surprise in April for a lot of people after 2008, 2009 where they knew their fund had lost money but they were still paying taxes, not a pretty picture.

Todd: Question number 3: Martin wants to setup a retirement account with after tax contributions, which of the following accounts should he setup? A: an IRA. B: a wrought IRA. C: a 401k. Or D: a Coverdale.

Kim: That's gonna have to be a wrought IRA, that is the after tax retirement account in today's world, 2015.

Todd: Got it. Any other choices you'd like to add on there?

Kim: Well, it's always interesting the after tax has become more and more popular and that basically indicates that the 401k and the regular IRA tax structure are not as popular, I don't know that popularity is why we should be doing things but it does tell us or the advisors like us that have been preaching for so long not to go too far on the 401k world but yes, actually a few other people like people in congress realized that created the wrought and of course now you have wrought IRAs and wrought 401k-s etcetera. So after tax means you're paying tax on the seed and in theory, you're not paying tax on the harvest which should be larger and that's a much more efficient way to do things. Life insurance interestingly enough has the same tax law.

Todd: Got it. Question number 4: John and Anne have college education accounts for all of their 4 children, which of the following accounts should have the most conservative holdings? The account for Mike who was 15, the account for Jenna who is 12, the accounts for Matt and Eric who are 8 year old twins or all accounts should be equally conservative?

Kim: And these are education accounts in theory to be used today JT&I ticket?

Todd: Correct, all are college education accounts.

Kim: So I'm gonna guess that the answer that they're looking for is that oldest child. Now, as our listeners are probably aware, we have a strong disagreement with walking money for education and it would be very risky to have that type of dollars in the mutual fund / stock environment where it could get lost but that's what most people do. And the theory is that as the child gets closer and closer to actually using the money, closer to age 18 that the accounts get more and more conservative so that principal cannot get eroded but I don't know about you, my risk tolerance is 0, I don't have the patience for losing principal in any form at any age nor do I think that children should be subjected to a change in their college because of stock market crash. However, I'm sure that that's what they're looking for is the older age being more conservative, the younger ones supposedly have a chance to make it up but good heavens, an 8 year old, that's only 10 years, we could go the next 10 years in our life right now with a flat stock market then what do you do?

Todd: Absolutely. And the scariest part of all of these to me is we're automatically teaching that you have to associate higher risk with higher returns and I don't believe that's true.

Kim: No doubt yet I guarantee you that the stock market class that was held in high school with a little contest for who could pick the best stocks taught higher risk equals higher reward.

Todd: Got it. Alright, question number 5: which of the following families would be affected the most by a 10 year period of high inflation? A couple in their 30s with 2 children. A couple in their 50s saving for retirement. A couple in their 20s who both work. A couple in their 60s living on a fixed retirement income.

Kim: Well, it's clearly the couple in their 60s because they are not working anymore and that is conversation I just had with a client today, they're in their late 50s and wanting to retire and I said, no, no, no, no, no, inflation is gonna absolutely decimate your net worth and the only way to continue to beat inflation is keep working and everybody has a different inflation rate, we talk about it as if it's a magic number 3% or 4% but one family that has higher medical bills is gonna have different inflation rate, a family that has kids in college is gonna have a different inflation rate, a family with a pretty expensive lifestyle might have a different inflation rate than somebody with a more simple lifestyle. So this idea that we can average inflation and actually make some decisions around it is crazy to begin with but I'm sure they're looking that that fixed income that the retired couple has and identifying that it's gonna be the most impacted by inflation which is actually true.

Todd: I think this is one of the questions that bothers me the most because I would say that every person involved in here is equally affected by inflation, some of them may have just be positively. Let's say the couple in their 30s happens to own real estate so while they're owning real estate, their house happens to be appreciating. A couple in their 20s are both in income increasing jobs so they're seeing that their income is continue to rise even though their buying power is probably not. I don't think there's a way to not be affected. I can see by saying which one is the most negatively impacted because the 60s couple supposedly no longer has the ability to go out and earn income to compensate but you can't hide from inflation, can you?

Kim: You're absolutely right and there are only 2 things that are benefited by inflation and that's a fixed mortgage payment and a fixed life insurance premium. And of course they're not referencing either of those in the question but you're very right in that everybody's affected by inflation no matter what you do and it's often called the largest stealth tax that we have coz it definitely steals wealth.

Todd: I love that, that stealth tax. Alright, ears ready for another question, it's a long one. Suzy has financed her house with a fixed rate mortgage. She also has a large sum of money in a savings account, shares of the corporation where she works and a certificate of deposit. Which of these assets protects her against sudden inflation increase? A: the savings account. B: the house. C: the certificate of deposit or D: the company shares.

Kim: How interesting that they bring that up, I'm impressed. So I'm gonna go with the house, absolutely, as the thing that protects her from inflation the most coz assuming her mortgage is fixed, I guess it doesn't clarify that, does it?

Todd: It does, has her house with a fixed rate mortgage.

Kim: Okay, there we go, because that's an important part coz it's variable mortgage. Obviously if inflation goes up, interest rates are going up so the mortgage rates gonna go up.

Todd: But she does also have a large sum of money in a savings account.

Kim: Yes and that's definitely going to be negatively impacted by inflation so even though the interest rates might go up on the savings account if inflation is going up too, she's not really getting ahead.

Todd: Got it. Alright, so we agree that the answer on that particular one is the house.

Kim: Yup.

Todd: Okay. Question number 2: Marie plans to purchase a house in 2 years and she already has the money for the down payment set aside in her checking account. Which of the following actions would be the most benefit to her? A: transfer the money in to a brokerage account and purchase stocks. B: transfer the money in to a savings account. C: invest in gold. Or D: invest in corporate bonds.

Kim: That's scary. I'm definitely gonna go with transfer the money to a savings account just coz you want it out of your hands so that you're not liable to spend it on an accident or on purpose. I know some people would say bonds for 2 years but we're talking in 2015 and interest rates might go up, bond value is gonna go down, you don't wanna touch those for a 2 year time frame. And I would even just address that cash value of whole life insurance is not even the best place, it could be. We talked about cash value of life insurance a lot but if you're only looking at 2 years, unless you had an existing policy that you could add that to, that savings account is gonna be your better deal.

Todd: Got it. And the biggest reason is liquidity, a lot of people sacrifice liquidity and in a short term emergency or in a situation where you know that you're going to need the money, sometimes you have to forego rate of return in order to protect that liquidity, yes or no?

Kim: Absolutely. And it's a hard thing for people to do but that's a definite case of the return of the principal is way more important than the return on the principal.

Todd: Alright. Question number 3: Mark has started a job 6 months ago with a monthly take home pay of 1,400 dollars. If his monthly rent has been 700 dollars per month and he's spent an average of 200 dollars for food, 100 dollars for clothing and 200 dollars for utilities and everything else, how much did Mark saved in the last 6 months? Wow, I need pen on this one.

Kim: I'm thinking that's 200 bucks times 6 months if I did my math right.

Todd: So your choices are 1,000, 1,200, 1,400 or 1,600.

Kim: 1,200 it is.

Todd: There you go. Alright, can't argue with that one. Let's see here, another long question. Jeffrey has a good job at a factory in New Jersey and lives in town A in Pennsylvania. Due to the long commute, he moves to town B which is in New Jersey where he buys a new house. Which of the following taxes will likely change? A: social security taxes and state taxes. B: federal income tax. C: Medicare contribution and property taxes. Or D: property tax and state taxes.

Kim: D it is, property tax and state tax. It is interesting that they lumped together some of the social security and Medicare things with state and property, those are completely wrong combination but that's good, they're getting people to think. So yeah, we're at property tax and state tax without a doubt. To my knowledge, there is not a difference on Medicare and social security between the various states, I believe those are all federally set.

Todd: Makes sense to me, not gonna argue with that one either. Here's a relatively short one. Retirement income paid by the federal government is called: A: social security, B: 401k, C: IRA or D: wrought IRA.

Kim: Social security and it does have the word social in it and it is definitely paid by the "government" but one of the things my husband Todd Langford likes to say is we should be replacing the word government with the word tax payers because that's actually happening is the tax payers are paying social security income.

Todd: Or social insecurity as the case may be. Alright, another one a little bit of a long one here. The United States has one of the highest tax rates for corporations in the world, which of the following would be consequences of a high tax rate? A: US companies move some of their factories overseas to lower their taxes. B: some of the US employees lose their jobs or C: all of the above, 3 choices.

Kim: Okay. I got confused on that one. Try me again.

Todd: Okay. The United States has one of the highest tax rates for corporations in the world, it's assuming that's true so it's not a question, they're just stating this is a fact. Which of the following are the consequences of having a high corporate tax rate? And answer A: is US companies tend to move some of their factories overseas or B: some of the US employees lose their jobs or C: both A and B.

Kim: Okay, got it, yeah, I like both A and B because both of those things definitely happen, we lose jobs and we lose companies going overseas. And I appreciate the clarification because I don't know that I knew that for sure, I don't know whether that's backup-able or not, the fact that the US has the highest corporate tax rate. It always interest me when they use the word corporate tax rate because really, who's paying the taxes of the corporations are the people buying their products and services. So we talk about this thing called corporate tax rate when in reality, it's getting past right on down just like every other expense of that entity is due to people who are buying the goods and services. But I realize accountants and lawyers and definitely congressmen and house of representatives like to talk about this thing called the corporate tax.

Todd: Well, and the bottom line is in the past anyway, the US worker has been more efficient. So if the output of a US factory is higher and makes a lower cost product regardless of the tax rate that they pay, the consumer is going to buy based upon quality and price not tax rate, am I correct on that?

Kim: Yeah, consumers never even gonna know the tax rate or care about it because like you said, all that dust is just get passed on down to them so what we hope people are buying in on is quality but we know what people are buying on so often is price. I'm just amazed these days, you go to Lowe's and try to buy a broom, either they were trying to buy a broom and a good wooden handle broom doesn't exist because Lowe's can sell a metal handle broom much cheaper and if you've been to metal handle broom, it's completely worthless so we wanted the wooden handled broom and we asked them about it, nope, don't have those, they're too expensive. So boy, this issue of value is just coming up to the fore friend and we vote with our dollars so you'll wanna think about that when you're buying things.

Todd: Alright, we're actually down to our last question. The federal income tax A: is paid by employees to the federal government at the end of each year. B: is subtracted from the total amount an employee earns during each pay cycle. C: is paid only by all US residents that own property. Or D: is not paid by any retired person.

Kim: Okay. So gonna go with D: not retired persons, not sure I'm clear on that question either.

Todd: So let's just go through it again. The federal income tax, A would be: is paid by employees to the federal government at the end of each year. We know that employees pay their taxes weekly or monthly or whatever so we know that one's wrong. Correct?

Kim: Yup, yup, coz every time you get paid, the government gets their money too.

Todd: Correct. And you can see that on a paycheck stub. B: is subtracted from the total amount an employee earns in each pay cycle. Now to me, that's the one that seems like the correct answer...

Kim: Okay.

Todd: So we just talked about.

Kim: I can go with that, keep going.

Todd: C: is paid only by all US residents that own property. So again, now we're talking about property tax not income tax so that's not the correct answer. And then D: is not paid by retired persons. Now, I would say that there are a lot of retired people who continue to pay income tax because they have other sources of income, that would be my opinion.

Kim: Definitely. So you got me there. Boy, I think I'm gonna have to go back to high school.

Todd: Are you smarter than a 5th grader?

Kim: Well that's fun. Good stuff, what a great find. I'm so glad we got a chance to look through this and it just makes me even more interested in some of our non-profit work in getting education down to the high school level and whether it's Truth Concepts' software or some of our books or what have you, we're very interested in educating high schoolers about finances. We always welcome kids involved in their parents' monetary situations, I think that's a super helpful thing as to have family meetings around the money that's going on in the family, start to teach children this because they're clearly not learning it in high school. And we have a book coming out, Busting the Interest Rate Lies, which will be valuable to high school students and we're hopeful that you find it helpful as well.

Todd: And I think education should not be wasted on the young, it's something that we all should work on every day, any resources you'd like to offer in the realm of education?

Kim: Absolutely. On the Partners 4 Prosperity website, we have a prosperity accelerator pack which you can sign up for and it's a free download with a bunch of other additional education. And you're absolutely right, you always wanna be continuing to learn. So partners4prosperity.com, on the right hand side, prosperity accelerator pack, that will give you a bunch of good resources to learn about the 7 principles of prosperity and how we look at some alternative investments to keep you out of the mess of the stock market.

Todd: Got it. And I like to right now is go on record as saying if there's any high school teachers who happen to be out there listening to one of our podcasts, if you wanna come up with some questions that you'd like to have us address or you'd like to have your students write a list of questions that they would like to hear us discuss on our podcast, we would be more than happy to do that, wouldn't we Kim?

Kim: Absolutely, sounds like a great strategy.

Todd: Alright, this is No BS Money Guy Todd Strobel for The Prosperity Podcast. Once again, my special thanks to Kim Butler. Take care everybody.

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