4 Unconventional Financial Tips To Consider

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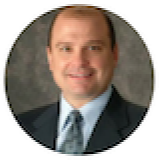

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I help people on their path to Financial Freedom. FULL BIO
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Financial planning is very unique to each individual and specific advice will vary for each person and situation. Sometimes in our practice we offer guidance that runs counter to popular opinion.

Here are four strategies that can be considered unconventional yet may be appropriate in specific circumstances.

Don't use your HSA for medical reimbursement. Sure, these accounts can help you save on a pre-tax basis and can then be used to pay medical bills; but if your finances allow, then you can let your HSA assets grow over the long term on a 'tax-free' basis. Please note that distributions from HSA used for qualified medical expenses are tax-free. Taxes and penalties apply to all non-qualified distributions.

So whenever possible, it is tax smart to leave assets inside your HSA and find other ways to pay for medical bills. Moreover, if you can keep your HSA funds invested for several years, consider investing consistently with your overall financial plan—and not defaulting to a cash investment option.

Think before you Roth. So much has been written about the benefits of Roth IRAs, and they certainly have merit, especially for younger investors who are in (1) in a low tax bracket now, (2) may retire into a higher tax bracket, and (3) have many years to wait until retirement. Unless all three of these factors are present, you may want to examine your net benefit.

Contributing to a Roth IRA or Roth 401(k) without considering a tax-deductible IRA or traditional 401(k) may not be optimal. For example, if you are a high earner in your 50s who is in a higher tax bracket now versus what may be projected in retirement, receiving a sizable tax break now by deferring into a traditional 401(k) may be advantageous.

Another often overlooked aspect to the Roth decision is the impact that a stock market correction has on a Roth contribution. The assets that were contributed or converted into a Roth have already been taxed, and if the markets subsequently head south, your desired tax-free growth may take even longer to materialize. With markets at an all-time high, it makes sense to diligently examine your overall situation before fully embracing a Roth versus traditional contribution.

Term Life Insurance is not always best. For young couples who want to financially protect their families, term life insurance is usually the least expensive choice. However, rough estimates are that only about 2% of term life policies pay out a death benefit. There are many reasons for this including the fact that the insurance was designed for a specific term. If you want to be assured you will have life insurance when you die, then whole life insurance may be the better choice.

Before you buy whole life insurance, understand the subtle differences in policy design. For example, you can get a paid-up whole life benefit by contributing for a few years, or you can pay for the rest of your life. And if your goal is to maximize death benefit and transfer wealth, then you can design your policy to accumulate as little cash as possible. If, however, you also want to benefit from tax-free cash accumulation inside the policy, then you can overfund your policy, as I further explain on Forbes.com.

There are many challenges to selecting the right mix of term and whole life. Insurance companies provide a great service by reducing the financial risk of death; but the consumer should be wary of a salesperson who may be less than knowledgeable, or who may be incentivized by a commission structure to push a certain product. So carefully check the background of your salesperson, and remember that agents affiliated with a large insurer are often commissioned employees who are unable to independently offer a broad suite of products.

Despite these potential pitfalls, whole life insurance is oftentimes used as a tax-efficient strategy to transfer wealth between generations and should not be ignored.

There is little need to include alternative investments. The big Ivy League Endowment funds include alternative investments, and despite their access to the 'best and brightest' opportunities, the decade ending in 2018 saw a 60% stock and 40% bond portfolio outperform them. To be sure, there have been periods where including alternatives has led to higher returns, but keep in mind, these large endowments invest at a lower price point than an individual investor and have deep resources to make and monitor these allocations. I suggest that investors keep it simple in an effort to earn similar—or even better—returns without all the complexity.

It takes some courage to consider unconventional approaches and go against the popular school of thought. Everyone's situation is unique, and your financial plan should take on its own unique qualities as well.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.