The Stock Market Is NOT The Economy 2

Haven't Named Beneficiaries To Your Retirement Plan? That Could Be Trouble 3

The Taxation Of Virtual Currency 4

CRAIG WILLEKE'S FINANCIAL NEWS DIGEST

MONEYLINE

Lump Sum Versus Traditional Pension

Courtesy of Craig Willeke, LUTCF, CLTC

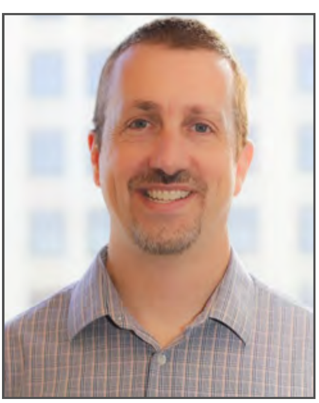
Many older workers with a pension are faced with a difficult decision: Take the retirement benefits in monthly payments or a lump sum.

The decision is usually irrevocable, so weighing the pros and cons of each option is critical. Here are some factors to consider:

Marital status. If you're married and choose to take a pension with a joint-and-survivor payout, payments will continue for as long as one spouse is alive. If you have adequate permanent life insurance, you can consider opting to forego the joint payout option, and take the maximum monthly benefit, because your insurance can be used as an income source for your spouse.

Your employer's financial health. Many workers opt for a lump sum because they're afraid their employer will go down the tubes and take their pension with it. You do have some protection through the Pension Benefit Guaranty Corp., but only up to specified limits.

Your tolerance for risk. If you roll your lump sum into an IRA or your former employer's 401(k), you can defer taxes until you start taking withdrawals. Once you've rolled over the funds, you can invest the money and possibly earn higher returns than you'd get from a pension. (Note, a potential for higher return comes with increased risk). Plus, you can leave any money you don't spend to your heirs — which isn't an option with a traditional pension.



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Baseball collectibles are gaining value despite the delayed, shortened MLB season, says sports-memorabilia expert Chris Ivy. Fans stuck at home became nostalgic for baseball cards and collectibles of stars from the 1980s and 1990s, including Ken Griffey, Jr., Tony Gwynn, Don Mattingly and Cal Ripken, Jr. In February, before the pandemic took hold, a Cal Ripken, Jr., 1982 Topps Traded card in perfect condition sold for $1,470 at auction…in May, one brought $1,980. An unopened box containing 36 packs of 1984 Topps cards sold for $240 in January…$492 in May.
Source: HA.com

Some banks are paying for coins. Coins are not circulating through the economy much because of the recession and because people are using more digital and contactless payment options. This hurts small businesses whose customers want to pay cash but do not have exact change. So some banks are paying people to bring in coins…as much as a $5 bonus for every $100 in coins. Call banks in your area to find out whether they are offering a premium for coins.
Source: FastCompany.com

"The trouble with being poor is that it takes up all your time."
—Willem de Kooning

The Stock Market Is NOT The Economy

By Jill Schlesinger, Tribune Content Agency, LLC

"How can the stock market go up, while the economy is still struggling to recover amid the pandemic?" The answer is that the stock market is not the economy and vice versa.

Let's start with the economy. The first half of 2020 was the most debilitating for the US economy since the government began keeping records in 1947. The good news is the recovery has begun and the second half of 2020 should show a significant bounce.

Even with the improvement, it is likely to be a long slog. "Nearly two-thirds of the National Association for Business Economics (NABE) members who participated in the August 2020 NABE Economic Policy Survey believe the U.S. economy continues to be in a recession that began last February," said NABE President Constance Hunter, CBE, chief economist, KPMG.

The labor market showed similar results, bottoming in late March/early April, with about 22 million jobs lost and the unemployment rate soaring to nearly 15%. About half of those unemployed have found work, but that still leaves employment down by 11.6 million since the pandemic began, 25% more than we lost to the Great Recession, according to Diane Swonk, Chief Economist at Grant Thornton. Of greater concern to her: "The pace of jobs recovery has slowed, while the ranks of the permanently unemployed have risen." The Internal Revenue Service concurs with Swonk. In a recent forecast, it predicted that there will be about 229.4 million employee-classified jobs in 2021 – more than 37 million fewer than it had estimated last year.

With poor economic results and dire predictions, why has the stock market soared since the March lows? The answer is investors are not worried about the past or even the near term; rather they are looking ahead to the future, and betting that on corporate "winners" of COVID-19 and their ability to make a lot of money.

Additionally, with the Federal Reserve committed to keeping interest rates at zero for the foreseeable future, the notion of TINA is important. Who is Tina, you ask? TINA stands for "There is No Alternative," and it is applied to the investment world as follows: "With zero percent interest rates, I can't keep my money in the bank, bonds are paying bupkis, so there is no alternative, except the stock market."

The two concepts have driven stocks higher, but there's another issue here: not ALL Americans can find comfort in the ascent of equities. Gallup in March 2020, finds 55% of Americans have exposure to the stock market, which is a share that has remained consistent over the past decade. That means that 45% do not. Of those who do own stocks, the Federal Reserve finds 51.8 % of stocks and stock mutual funds are held by the top 1%, while the share of ownership by the bottom 50 percent is less than 1%.

Economists and analysts tell me that while the fortunes of the stock market can diverge for a period of time, they usually end up moving in the same direction. Which direction that is, remains unknown at this time.

Haven't Named Beneficiaries To Your Retirement Plan? That Could Be Trouble

By Elliott Raphaelson, Tribune Content Agency

In a recent article in Financial Planning, retirement plan expert Ed Slott, reminded those who participate in company retirement plans to make sure they name beneficiaries. In the absence of a beneficiary designation, he noted, the benefits will be paid in the order of priority specified by the plan document. Moreover, a will, if one exists, will not override the priorities specified in the plan. Failure simply to name the beneficiaries on the designation form could lead to protracted legal action among family members after the plan owner dies.

To illustrate the point, Slott cited an appeals court ruling from May in the case Kinder Morgan Incorporated v. Joanne Crout et al. In this case the court ruled that a deceased participant's surviving spouse, and not his children, was entitled to his ERISA retirement plan benefits because the participant never named a beneficiary on the beneficiary form. Accordingly, the spouse was the proper beneficiary under the terms of the plan, as required by ERISA. The plan specified that the participant's benefit would be paid in the following order of priority: surviving spouse, if any; surviving children, if any; surviving parents, if any; and, finally, the participant's estate.

After the plan owner's death, his spouse and his three children all made claims regarding his retirement benefit. The children argued that their father had designated the children as beneficiaries in a prior plan that merged into the Kinder Morgan plan. They also argued that the case should be decided by a state probate court and not a federal court. The spouse, Joanne Crout, argued that her husband had made no beneficiary designation, and that she was entitled to the funds. The court denied the children's arguments, and ruled in Mrs. Crout's favor. The children then appealed to the Fifth Circuit of Appeals. That court agreed with the lower federal court, ruling that Crout's benefit should be paid to the spouse because he had not designated a plan beneficiary.

This legal battle took four years — four years of expensive litigation that could have been avoided if Mr. Crout simply filled out what is typically a one-page form.

Although this article is focused on company plans, I want to re-emphasis the importance of IRA owners to also use the beneficiary form available from the IRA custodian for two reasons. First, by using that beneficiary form, probate will be avoided regarding these assets, and the assets will immediately be available to the beneficiaries. Second, the beneficiary form overrides the will. So, an IRA owner should make sure that he/she specifies his wishes on the beneficiary form available from the custodian. He/she should not be using the will to specify IRA beneficiaries. Naming beneficiaries only via the will does not avoid probate.

"Stocks plummeted today on forecasts that the sun will rise again and tomorrow will be another day."

Beware online shopping scams, which have surged to record levels this year, warns cybersecurity expert Steven J.J. Weisman, Esq. Scammers have "sold" but not delivered face masks, hand sanitizers and other items in short supply, according to the Federal Trade Commission (FTC). Before buying from an unfamiliar website, enter its name and the word "scam" into a search engine to check for warnings. If you chose to purchase, use a credit card, which provides much stronger fraud protection than a debit card.

Source: Scamicide.com

Beware credit score damage from coronavirus-related payment-modification programs, says consumer reporter Herb Weisbaum. Federal law requires lenders to report accounts as "current" if program terms are followed and payments weren't in arrears prior to modification, but many borrowers have reported that lenders have inappropriately reported a "missed payment," which can lower a score by up to 100 points. Monitor your score, and if it drops sharply, request free credit reports at AnnualCreditReport.com and challenge any "missed payment" with the credit-monitoring agencies.

Source: ConsumerMan.com

"If you lend someone $20, and never see that person again, it was probably worth it."

— Author Unknown

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The Taxation Of Virtual Currency

By Joy Taylor, Kiplinger's Personal Finance

Q: ***How is virtual currency taxed?***

A: Virtual currency is treated as property for tax purposes. This includes bitcoin and other forms of similar digital representations of value that act as a substitute for real currency.

Taxpayers who sell or exchange virtual currency will recognize gain or loss on the transaction. The profit or loss will be capital gain or loss if the bitcoins were held for investment, similar to stocks or bonds. If you held the virtual currency for more than one year before selling or exchanging it, then the capital gain or loss is long-term and subject to preferential tax rules. Otherwise, it is short-term.

Taxpayers who accept bitcoin as pay for services have ordinary income equal to the value in U.S. dollars on the date of receipt. Your tax basis in the bitcoin is that same value. Employers that pay wages with bitcoin or other cryptocurrency report the U.S. dollar value on W-2s. Ditto for businesses that send out 1099 forms.

IRS is intensely interested in taxpayers who transact in cryptocurrency. It is using pretty much everything in its arsenal in its effort to clamp down on unreported income and other tax compliance issues resulting from these deals.

The agency went to federal court to get names of customers of Coinbase, a virtual currency exchange, who bought and sold bitcoin through the company.

It has set up teams of IRS agents to work on cryptocurrency-related audits. Agents are mailing a second round of letters to people who they believe have cryptocurrency accounts.

More taxpayer disclosure of virtual currency is on tap, beginning in 2021. Individuals who filed Schedule 1 with their 2019 Form 1040 had to answer whether they had received, sold, sent, acquired or exchanged virtual currency. That question is moving to page 1 of the 1040 for 2020, so all filers must answer it. Please be sure to consult your tax advisor for additional information.