THE 7 BIG 401K RETIREMENT MISTAKES

CONSUMER RETIREMENT NETWORK

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IT COULD HAPPEN TO YOU

John Huber felt like someone had punched him in the gut.

As he watched the news from his kitchen table, he couldn't believe what he was seeing.

He picked up his phone to call his financial advisor for a second time. Still busy. He left another voicemail.

He hopped online to try and figure out what was going on. Every news site said the same thing.

The financial markets had collapsed.

John saw something similar in the early 2000's, when the dot com bubble burst and after 9/11, but this looked worse.

John called his financial advisor a third time. Nothing.

"When my portfolio took a 27% hit in 2000, I had time to make up for it. I'm 60 years old now and plan to retire in a few years. I don't have time to get my money back if I take a big loss now. What am I going to do?" John thought.

John would describe himself as a diligent worker and saver. He has worked his entire career at a local newspaper, first as a writer and now an editor. He would be the first to tell you he didn't do everything perfectly, but did enough saving that he and his wife had just over a million dollars in their 401k retirement accounts.

The problem is that it was all tied to the market.During the housing market crash of 2008, anyone in the market got slaughtered.

John looked back at the TV to see if anything had changed, but things were only getting worse.

His wife, Sarah, had gotten out of bed and was moving sluggishly into the kitchen. Neither of them had slept well since the news broke, especially Sarah.

She was consumed with dread at the thought of their retirement dreams being put on hold, or possibly crushed forever.

As she poured herself a cup of coffee, and handed one to John, she asked if he had heard anything from their advisor. "Nothing yet, but I'll try him again," John said.

John left his fifth message since the news about the market crash first broke.

"I'm sure everyone is trying to get a hold of him to figure out what the hell is going on and how their investments are doing. I'll keep trying until I get a hold of him. We'll figure this out," he told Sarah.

Sarah and John planned to retire in two years. They already knew everything they were going to do, experiences they had put off for years.

John was going to get back into woodworking and had already bought some equipment to expand his skills. He was

also going to write a novel he'd been noodling around with for years.

Sarah was looking forward to spending more time with their five grandkids, as she loved to take them on little trips and adventures. She also wanted to start gardening and help more at the church.

Both longed for an extended vacation to Europe, something they had talked about since they first got married. Italy, Spain, France and Germany - they wanted to see and do it all.

Now all of that was hanging in the balance as they waited to hear back from their advisor.

The phone rang. John picked it up frantically. "Hello?" he said, hoping it was his advisor, Michael.

It was him. "Hi John, sorry it's taken me so long to get back to you. Things have been crazy around here. As you can imagine, we were completely blindsided by this. We're just trying to make sense of which way is up or down right now," Michael said.

"I understand," John said, trying to stay calm. "But I really need to know what's going on with our investments, since you help oversee our 401k's and other investments. How bad is it?"

Michael paused for a moment to collect himself before answering "We'll know more over the next couple of days, but it's not looking good. Everyone is taking a hit, and it looks like you're going to lose about $400,000. It could be more depending on what the market does over the next few days."

John was in shock. He didn't know what to say at first.

"What do we do? Should we get out? Do we stay in? How do we fix this?" he asked.

“Now wouldn’t be a good time to get out,” Michael said.

“This happens every so often, but the market always comes back. The best thing for you to do is to hold tight and remember it will eventually come back. Take a deep breath and wait till the dust settles.”

“How long are we supposed to wait?” John asked with a hint of frustration. “Sarah and I are a few years from retirement. Will it be back by then?”

“I can’t say for sure, John, but it’s probably going to take longer than that. The market rarely bounces back that quickly.”

John couldn’t believe what he just heard.

“So, we’re just supposed to just sit here and do nothing? Our entire life gets turned upside down, overnight, without any warning, and we’re supposed to sit here and hope for the best?” John said even more frustrated this time.

“Look, I’ll have more information soon, John. These things happen and always work themselves out. Just hold tight, and I’ll get back to you soon.” And Michael hung up.

John just stared at the phone

“What did he say?” Sarah asked.

John shared what Michael said and tears started to stream down her face. Their life, and plans for retirement, had been completely turned upside down.

When it was all said and done John and Sarah lost close to $500,000.

It took them ten more years to get enough saved to retire. During this time John lost his job at the newspaper as the industry started to implode, so he had to take on a variety of odd jobs to keep paying the bills while saving for retirement.

He ended up working until he was 70 years old, 8 more years than he and Sarah planned.

The stress and sleepless nights brought on a number of health problems, leaving them unable to travel or do many active things before the crash.

They often think to themselves how close they were to having a completely different life.

Unfortunately, that's how fast it can happen.

In one day, your entire life can change.

NOW IS THE TIME FOR A NEW PLAN

Sadly the story of John and Sarah isn't an uncommon one.

Millions of Americans have gone through this before, and many will again. Maybe even you can relate to this story.

The reason this happens to so many people is because most don't realize the plan that got you to this point won't take you over the finish line.

People like John and Sarah are told every day to keep doing what they're doing, even when the market crashes.

The problem is when you're in your 30s or 40s, you have time to make up for a major loss. The same isn't true when you're in your 50s and 60s. Time is precious at that point, and you can't have your whole plan destroyed when you're that close to the finish line.

As you can see in this graph from the 2000s on market returns of the S&P 500, it was hit hard by the dot com bubble bursting and 9/11.

If you had $100,000 in the market at that time, it would have taken you close to 8 years to break even.

As you can see here, the market crashed again in 2008. This adds another 5 years of recouping the money you just lost.

In total, you're looking at 12 years of heartache just to get back to where you started.

		$100,000.00
Date	**Average Value***	**Actual Value****
12/29/2000	-9.1%	$89,650.00
12/31/2001	-11.9%	$77,869.99
12/31/2002	-22.1%	$59,687.35
12/31/2003	28.7%	$76,059.59
12/31/2004	10.9%	$83,384.12
12/30/2005	4.9%	$86,435.98
12/29/2006	15.8%	$99,003.78
12/31/2007	5.5%	$103,201.54
12/31/2008	-37.0%	$63,726.95
12/31/2009	26.5%	$79,792.51
12/31/2010	15.1%	$90,811.86
12/30/2011	2.1%	$91,592.84
12/31/2012	16.0%	$105,102.78

The reason it takes so long to recoup losses in the stock market is because it's much easier to lose money in the market than it is to gain it, especially after a loss.

In the chart below, you can see it takes a greater gain to break even after a loss. For example, if you lose 50% in the market, it would take a 100% gain just to break even.

Loss Incurred	Gain Required to Break Even
-20%	25%
-30%	43%
-40%	67%
-50%	100%
-60%	150%
-70%	233%

That's why this book is so valuable to your retirement success.

Sticking to your 401(k) was a great plan when you had a company match, deferred taxes and time to ride out the ups and downs.

But now that you're about to enter retirement, or are retired, the stakes are that much higher.

One wrong move and your whole plan could get derailed.

Too much market risk is just one factor.

You also have to consider taxes, distributions, fees, social security and so much more. It all has a part to play in your retirement plan and future.

Though everyone's situation is different, this book will serve as a guide for what to consider.

One last word of caution before you get started. Don't wait to read the entire book before you implement the advice shared. Be sure you're taking the right steps now to protect the retirement income you've spent a lifetime building.

The time to act is now.

CHAPTER 1:

401(K) TAX IMPLICATIONS AND MISTAKES

Knowing exactly how the federal tax laws work is of utmost importance as you near retirement, and when you start to make withdrawals from your 401(k) account.

Poor decisions based on bad planning, or a lack of information, can have severe consequences, particularly when it comes to how much tax you may owe when you're no longer drawing regular paychecks.

Problem #1: Failing to Maximize Tax Breaks When You Age Beyond 50

When you contribute to a traditional 401(k) plan, you're deferring the payment of income tax on that money. That means when it's time to fork over your money on April 15, the money you put into your 401(k) isn't part of how much you've earned.

If you're older than 50 years of age, you can contribute an additional $6,500 in catch-up contributions and avoid taxes

on $26,000 total. However, most people have no idea this is possible and don't take advantage of the situation.

How big of a deal can it be?

When you hit 50 years old, and you can contribute up to $26,000 per year to your 401(k) plan, your savings per tax bracket per year increases by the following:

22% tax bracket: $5,720

24% tax bracket: $6,240

32% tax bracket: $8,320

35% tax bracket: $9,100

37% tax bracket: $9,620

Problem #2: Cashing Out Early

As you approach retirement, your expenses can change in a hurry.

You might have medical costs that need to be paid out-of-pocket because your insurance doesn't cover them. Your children, or other relatives, might need money in an emergency situation and turn to you for support. There might be a financial crisis similar to the 2008 Great Recession or the COVID-19 pandemic that has you falling short on paying your bills.

When something dire happens, it can be tempting to pull on the strings of your 401(k) and take money out early to staunch financial wounds. Except, even in the most dire circumstances, it's a bad idea.

Taking out money from your account before the age of 59.5 gets you smacked with a 10% early withdrawal penalty, in addition to normal income tax you'll pay at 24%.

That means for every dollar you pull out early, you're going to lose about 34 cents.

So, if you need $10,000, and you have no other options besides your 401(k), you better withdraw $15,000. Ten percent of that will be stripped immediately for the 10% penalty and another 24% will go to the government at the end of the year.

On rare occasions, the federal government will make allowances for 401(k) participants impacted by a major event, such as the pandemic. Anyone who pulled out money during 2020 from their 401(k) plan was not penalized the 10% and had three years to pay off the income tax. But those were very extreme circumstances, so don't get your hopes up they'll happen again anytime soon.

The only other way to get out of the 10% penalty is to prove you have an "immediate and heavy financial need." For instance, if someone in your family gets into an accident or is diagnosed with a medical condition, and your insurance company doesn't cover certain parts of their treatment, such as rehabilitation from a stroke.

If that happens, and the money you need is more than 10% of your adjusted gross income as of 2021, you can withdraw the exact amount you need for the expenses, but no more. You won't have to pay the 10% penalty, but you do still have to pay the income tax for whatever tax bracket you're in.

There are a few other circumstances where the IRS allows early withdrawals, like the death of the participant, the total and permanent disability of the participant, as a result of an IRS levy to the plan, if you are a military reservist called up to active duty or if you are over the age of 55 and separate from service in the military, or past 50 and separated from service as a public safety employee of a state or political subdivision of a state.

Problem #3: The Tax Bill for 401(k) Withdrawls

When you decide to take your money out of retirement, the US government is going to be waiting with open arms for its share.

Once you've reached age 59.5, you can start pulling your money out without a 10% penalty, but you'll still pay income tax on the money you withdraw. If you're still drawing a paycheck when you start making those withdrawals, you could find yourself quickly moved up to a higher tax bracket as a result.

Let's break that down with a couple of examples.

Peter just turned 60 years old, and he's still going strong as the senior vice president of his company, earning a $150,000 salary per year. He's divorced, and his kids have grown up and moved out, so he's ready to downsize to a luxury condo in the city.

Rather than rent his condo for 12 months at a time and have no equity in the deal, he decides to cash out $200,000 from his 401(k) as a huge down payment and buy it. Prior to the withdrawal, he was in the 24% tax bracket, paying about $36,000 a year on his salary.

When he pulls the $200,000 from his account, suddenly his income for the year skyrockets up to $350,000 and bumps Peter into the 35% tax bracket, where he'll pay a whopping $122,500 to the government, more than a third of his income.

Elanor is also 60 years old and a senior vice president who makes $150,000 per year.

She's got her eyes on a nice place to live as well, but knows pulling out money while she's still working will have her paying through the nose like Peter did. The last thing she wants

is to give Uncle Sam more than his fair share of 40 years of saving. She plays it a bit differently.

She makes a plan to stay in the home she owns for a few more years. She retires at the end of 2022.

On the first business day of 2023, she pulls out $150,000 from her 401(k), which keeps her in the exact same tax bracket, 24%, which means she'll pay $36,000 on it. That takes her down to $114,000. She puts $75,000 of it in a savings account and uses the other half for her living expenses in 2023.

On the first day of 2024, she pulls out another $150,000, again, staying in the same tax bracket and paying the same amount of income tax. Now she has $150,000 saved up to buy her luxury apartment and remains in the same tax bracket.

By being patient and waiting until her primary source of income went away, she manages to withdraw $300,000 from her 401(k) and only pay $72,000 in taxes on it, while Peter wound up paying almost the same amount in taxes ($70,000) and ended up with $100,000 less in the bank.

If you are in a lower tax bracket in retirement than you were when working, that's a good thing, and you'll save some money accordingly if you're smart about how and when you pull money from your 401(k).

Problem #4: 401(k) Income Affecting Your Social Security

Provisional income is not something most people have heard of before they reach retirement, but it's what the Internal Revenue Service uses to determine whether or not your social security benefits will be taxed.

Once you start receiving distributions from your 401(k), or other retirement accounts, they count as part of your provisional income. They are added to any 1099 tax forms you re-

ceive from your taxable investments and to half of the Social Security benefits you receive for the tax year.

If all that income adds up to more than $34,000 for a single person, or more than $44,000 for a married couple, you'll be taxed on 85% of your Social Security income.

Depending on your age and expected payout, this could be a serious tax commitment you may have not planned for as you head into retirement, causing a loss in savings earmarked for living expenses

CHAPTER 2:

NOT CONSIDERING THE RISK OF BEING IN THE MARKET AS YOU NEAR RETIREMENT

Investing in the stock market is always a risk, but that doesn't stop millions of Americans from doing it every day of the year.

Problem #1: Not Understanding The True Risk of The Stock Market

Events have a way of balancing themselves out, enormous booms and busts correct themselves over time and cycles repeat themselves as they always have.

But that's not the way of the world.

The oddest things can cause a particular stock or industry's value to spike or plummet. The efforts of decades of slow and steady gains can be dashed in a single afternoon.

Even investing in what feels like “safe” stock market options, such as a mutual fund built around the S&P 500, can vanish in a heartbeat. Take the first few days of the COVID-19 pandemic, for example. On February 12, 2020, the Dow Jones Index closed at 29,551.42. As the pandemic started to spread to other countries, the Dow Jones fell more than 4,000 points, more than 16% of its value, in 8 days.

When the US started considering mass shutdowns on March 11, 2020, the Dow Jones fell another 3,800 points in just two days, and bottomed out at 18,213.65 on March 23. In just five weeks, the national indicator lost 62.2% of its value based on fear of the unknown.

Let’s put that in the context of a 401(k).

A common mutual fund that brokerage house Vanguard uses for 401(k)s is its S&P 500 ETF. On February 12, 2020, it closed at $302.37/share. If you were a long-time Vanguard 401(k) account holder, you might have accrued 5,000 shares of the fund within a few months of retirement in 2020, making it worth $1.511 million.

Then the pandemic hit.

At first, the signs were subtle in this typically trendy fund. It actually was up a buck or so after a few days into later February, but then the bottom dropped out.

On March 13, it dropped $28.48/share in a single day, and by March 13, the day the Dow Jones bottomed out, the fund had sunk to $210.74/share.

That $1.511 million you were sitting pretty with on February 12 had been reduced to $1.054 million in five weeks. A loss of $457,300, a drop of 43.3% of a lifetime of contributions in a little more than a month. If you were planning to retire in 2020 and had lots of money tied up in the stock market, you were caught flat-footed.

Putting too much faith in the stock market, instead of transitioning your 401(k) investments into more low-risk investments, can put your retirement plans in serious jeopardy.

Problem #2: Not Realizing How Long it Takes to Recoup Your Losses After a Market Crash

If you're close to retirement right now, you surely remember the stock market crash of 2008.

On September 29 of that year, the Dow Jones average fell 777.68 points, the largest single-day drop in history. For those invested in target-date retirement funds, the average loss of their value dropped 20%.

It was part of a long, staggering cycle where the market dropped from a high-water mark of 13,264.82 in early January 2008, to a low point of 7,752.29 that December. Any good investor knows the market is cyclical and a precipitous drop will eventually rise again, but if a crash happens near or after your retirement age, the amount of time necessary to rebuild those losses might not be available to you.

A study published by the National Library of Medicine found at a 5% equity return starting at the end of 2008, it would take between three to ten years to recoup the losses, but only if the individual and employer's match contributions continued uninterrupted. If you were about to retire, that meant your contributions were going way down, or would maybe stop completely.

This might mean postponing your retirement altogether in order to contribute more to build your 401(k) back up quickly.

Problem #3: Lack of Diversification Outside of Your 401(k)

Asset allocation inside the stock market is a universally accepted strategy. You mix a few mega-corporations with some up-and-comers who you think could take off and add in a

dash of the old faithfuls that are going to generate a very solid rate of return year in and year out.

That's all well and good during a normal year, but when the stock market crashes, nobody is safe, and every company is going to feel those effects. Your 401(k) is likely going to be made up of mutual funds that are stock-driven, but what about your investments outside of the 401(k)?

They don't have to fall in line with the narrow offerings of your plan administrator. You can mix and match any financial instruments you want, from annuities and CDs to property and other valuables, even the new kid on the block, cryptocurrency.

The point is having different types of stocks in your investment portfolio isn't going to do you any good if the whole market crashes at once. It's like having four different kinds of cars in your garage when there's suddenly a gas shortage.

Balancing your investments outside of your 401(k) is essential to giving yourself breathing room and layers of security if another market crash should occur as you approach your intended retirement age.

Problem #4: Not Accounting for The Loss of Your Company Match Contributions

When you've worked somewhere for a long time, you get into the rhythm of every paycheck looking the same, and your 401(k) climbing up with every two weeks as you contribute your chosen percentage and enjoy the generous company match.

When you retire from that job, you can still contribute to the 401(k) out of your own pocket, but the company match ceases to exist. On the outside, it seems like a "duh" problem, but countless people forget the company match is a privilege, not a right when they are doing their financial planning for

retirement and forget about the life change that will occur when they stop working the 9-to-5 shift. Let's say you are nearing retirement age and using the IRS advantage for seniors to contribute the maximum of $26,000 per year.

If you're able to get to that number by contributing 10% of your gross pay and getting a 5% match from your company, that means the company is responsible for $8,667 of your total contributions per year. When you retire, your salary and the employer match both vanish.

CHAPTER 3:

NOT UNDERSTANDING ROLLOVERS

In general terms, rollovers are a basic part of life with a 401(k).

Most people are going to move from one company to another at least once in their career. On occasion, people will keep an existing 401(k) account at their previous job intact because they like the fund, or it is something that diversifies their investments, but most use the rollover option to take their existing retirement savings from the last job and funnel them into the 401(k) option their new company is offering.

The rules of rollovers start to differ considerably when you hit age 55 and, again, when you retire. Not knowing what's allowed can cause considerable difficulty as you head into your golden years.

Problem #1 - Trying to Roll Your RMD's Into Another 401(k) or IRA

We'll talk more extensively about required minimum distributions (RMD) in a later chapter, but in a nutshell, they are the amounts from each of your 401(k) accounts and IRAs that you

have to take yearly once you reach a certain age. They're based on a certain formula that factors in several variables.

For some people, not all RMD's have a purpose in their living expenses for the next year, so they try to outsmart the IRS by rolling these amounts over into another account to continue earning interest on them.

For example, let's say you have two 401(k) accounts, one that requires a withdrawal of $50,000 this year and another that requires a withdrawal of $40,000. The $50,000 might be earmarked for your living expenses in your first year post-retirement, while the $40,000 is from a fund you never rolled over while working, because you liked the fund and its management and kept contributing to it out of pocket.

Since you don't need that money to pay the bills, the temptation is there to roll that money straight over into another 401(k) or IRA and put it immediately back to work for you. Except the IRS says not only is that a mistake, but a costly one.

If you roll over an RMD, it becomes designated as an excess IRA contribution. If you do not remove it by October 15 of the year following the year of the excess contribution, you will be subjected to a 6% penalty on the RMD.

That gets pricey in a hurry, especially when you're already getting taxed for it as part of your regular income on your federal tax return. If you are in the 32% tax bracket, you're already taking a $12,800 hit on that RMD. The 6% penalty would bump your damage on the RMD up to $15,200.

Problem #2: Missing The Rollover Window If You Leave Your Employer

The economic uncertainty of 2020 saw a lot of people nearing retirement age leaving long-term positions as cutbacks, layoffs and shutdowns happened with tragic frequency during the COVID-19 lockdowns.

If you leave one company for another, instead of retirement, you can either leave your funds in the old 401(k), although any matching contributions from your company will be gone, or you can roll the old funds over to your new employee's 401(k) offering.

The most common way to do this is a direct rollover, which can be facilitated by the plan administrators, but not everyone goes this route.

Some people make it a manual process, but doing so puts you on the clock for a deadline that you absolutely do not want to miss. If you want to do the rollover yourself, you've got 60 business days, and not one second more, to reinvest the money into either your new employers' retirement plan or an Individual Retirement Account (IRA).

If you don't, you'll be hit with the 10% early-withdrawal penalty assuming you are less than 59.5 years old.

Make sure you check with your plan administrator or HR representative about its policy on low-balance accounts before you make the decision to leave. If you're into your 50s, 60s or even 70s, we're not talking about small potatoes for missing this deadline.

A $250,000 balance in a 401(k) that misses the rollover deadline will see you giving away $25,000 in the blink of an eye to the government. No one wants, or can afford, that kind of mistake.

If you decide you want to roll your existing 401(k) funds into a new 401(k) or an IRA, it's absolutely essential you ensure the administrator is doing a direct rollover. That means they are sending the funds straight from their financial institution to your new one, with no in-between stops. When this happens, you don't run the risk or any sort of penalty and you don't have to pay income tax.

If you were at your last company only briefly, and your 401(k) balance is between $1,000-$5,000, some employers will move your balance to what is known as a safe harbor IRA.

This sort of IRA usually invests in money market mutual funds which are very safe but also have a very low rate of return, usually not much above a high-yield savings account. It's basically just a place for safekeeping until you decide what to do with your money.

This happened to a lot of people who just started a new position around the time of the COVID-19 pandemic, and then were laid off or saw the company fold. It also happened for people who took new jobs during, or after, the pandemic as stop-gaps in their income and have since moved on to more lucrative long-term posts.

Problem #3: Getting Taxed Hard On an In-Direct Rollover

If you're doing an in-direct rollover you should consider only taking one if you have a financial emergency.

The original fund administrator will send you a check to your home for the amount of money in the fund. If that happens, your old employer will take out 20% automatically for taxes. No questions asked.

So, if you had $50,000 in your 401(k), only $40,000 is going to show up in the check.

To add insult to injury, you'll be hit with the 10% penalty if you don't invest all your funds in a retirement account within 60 days, assuming you're 59.5 years old or younger. But in this circumstance, "all" doesn't mean the $40,000 you received after the tax hit.

It means the full $50,000 previously in your other 401(k). That's right, in this sort of predicament, you would not only have to invest it all somewhere else, but also come up with

that missing 20% inside of two months, and get it into a retirement account as well or take the penalty and be down to 70% of your original account balance.

Problem #4: Not Understanding The Limitations of a Traditional IRA Rollover

Switching jobs late in your career, or retiring, can be an ideal time to roll over your 401(k) to a traditional IRA, another form of tax-deferred retirement account.

While they are generally thought of as positive, because you can merge multiple 401(k) accounts into them, continue to grow your money in a tax-deferred manner, and might have investment choices that are not available in 401(k) accounts. There are, however, significant cons to the IRA rollover.

The first is that you cannot borrow money from an IRA like you can from a 401(k). Depending on the IRA provider you choose, you might pay higher annual fees for investing, pricing, and expenses than you are accustomed to with a 401(k). While you can defer your RMDs from 401(k) accounts if you are still working at age 72, that's not an option with traditional IRAs.

That could put you in a significantly higher tax bracket and have you paying a lot more in taxes in general if you're still drawing a salary and suddenly have to take on significant RMDs as well.

Also be aware that except in the case of personal bankruptcy, any money in a traditional IRA is fair game for creditors to come after if you have outstanding debts.

Problem #5: Not Rolling Over The Same Property Type

If you are seeking to roll over an asset to another retirement account, it must be the same thing that you withdrew from your 401(k).

For instance, if you withdrew cash from your 401(k) and want to roll it over to a traditional IRA, you can't buy stock with it and move the stock to the new account. It's not allowed. If you withdraw stock, then only that stock is eligible to be rolled over.

Problem #6: Rolling Over at The Wrong Time

There are a lot of "magic numbers" when it comes to your 401(k), but one to really take note of is age 55. Once you reach that figure, there are different rules that apply to you that can have big-time implications on your future financial situation.

If you leave your job at age 55 or older, but your retirement account stays with your employer, you can still take distributions without paying the 10% early withdrawal penalty that the IRS levies on pretty much everyone.

However, if you roll that 401(k) over to an IRA or some other type of qualified plan, you will lose that advantage and would be forced to pay the 10% fee up to age 59-½ for any early withdrawals.

You also must be weary about waiting too long to roll over your retirement assets.

Once you hit the age of taking required minimum distributions, currently 70-½ years old, these funds are no longer available for rollovers. You're locked into those accounts until they are all tapped out (or you head for the next great adventure beyond this one), so make sure your funds are in the accounts you want them in for the long haul.

CHAPTER 4:

MISTAKES WITH ROTH CONVERSIONS

The Roth 401(k) came into effect on January 1, 2006, combining a traditional 401(k) with a Roth IRA. The Roth 401(k) option has gained popularity through the early 21st century, because it allows you to forgo paying taxes on your funds when you pull them out in retirement, instead paying money on them as contributions each time you contribute to the fund during your working years.

However, there are several sticking points with the Roth conversions that can easily trip people up along the way if they are not careful.

Problem #1: Not Being Intentional with The Conversion

People are often drawn to Roth conversions as they get older, because they see it as a way to avoid the taxes that will come due when they start withdrawing money via RMDs and other processes in retirement.

Of course, the government isn't going to just let you get away with not paying money on 401(k) contributions throughout your career, then convert that account to a Roth, and also

not pay taxes when you start making withdrawals. It just does not work that way.

When people think any sort of conversion will get them the result that they want, they wind up not doing the math to figure out what works best for their individual situation and getting burned.

A lot of people try to convert a lot of their funds at once instead of devising a plan to move it in small, annual conversions that reduce the immediate tax burden you will face as a result. So what's the difference?

Let's break down Roth Conversion strategies with two different examples.

Ava has $500,000 in a 401(k) account that she wants to convert to a Roth in the 10 years before she reaches 60.

She already has an income of $95,000 a year in salary and about $15,000 in dividends from other investments. That puts her taxable income at $110,000 per year and in the 24% tax bracket.

If she converts $50,000 of her 401(k) per year to a Roth, she'll pay taxes on that much as well, raising her annual taxable income to $160,000, which keeps her just under the next higher tax bracket. She'll pay $12,000 in taxes off that $50,000 each year, but won't have to worry about any more taxes when she withdraws it from her IRA post-retirement.

Charlotte also has $500,000 in a 401(k) account that she wants to convert to a Roth before retirement.

Her salary is $95,000, and she has the same $15,000 in dividends to put her at $110,000 of taxable income per year. She doesn't consider the tax implications of converting her 401(k) to a Roth. However, she decides to do it in two equal payments of $250,000 apiece.

When she converts the first half of her money, it jumps her taxable income for that year up to $360,000 from the 24% tax bracket to the 35% bracket. She owes $126,000 in taxes as a result, and has lost $87,500 of her $250,000 in taxes by not planning out a strategy.

If she does the same thing next year, she'll see $175,000 of her $500,000 vanish in taxes during the conversion process. By breaking her conversion up over 10 years, Ava pays $120,000 in taxes, retaining an additional $55,000 more of her original 401(k) savings than Charlotte does.

Problem #2: Paying Roth Conversion Taxes With Your Converted Funds

So you've got a 401(k) that you want to convert into a Roth. Of course, that means you have to pay taxes on it since they were deferred when you made your original 401(k) contributions. Since you have to pay taxes andjust pulled money out, the temptation is there to use that money to pay the taxes. But let's think about how much sense that actually makes.

The money you're converting isn't simply going from one hole in the ground to another. This isn't 100 years ago when you took your money out of the bank and hid it in your mattress in order to have it for a rainy day.

The purpose of the conversion is to get it into an account where it can grow as much as possible before you need, or are required, to pull it out in retirement, at which point it will be a tax-free withdrawal.

So, let's say you convert $50,000 from a 401(k) to a Roth IRA, and you're in the 24% tax bracket.

That means $12,000 of taxes are due on that money. If you pay it out of the fund you're converting, instead of moving $50,000 to your new account, you're only putting in $38,000. That's $12,000 less you'll see grow over the rest of the life of

your Roth account, and $12,000 less that'll be tax-free when you decide to withdraw it.

Even at the most basic rate of compounding, you're really damaging the possible size of your Roth's balance by the time you retire. The more logical way to maximize how much goes into the Roth is to pay the taxes you owe out of your regular cash flow, or by using a different non-retirement savings account that won't be negatively affected by withdrawing funds from it.

Problem #3: Rolling Over a 401(k) to an IRA, Then Converting it to a Roth

Partial Roth conversions are good ideas for people in their 50s and 60s.

Moving a 401(k) to an IRA is not a taxable circumstance, but it can alter the way the IRS figures how to determine what percentage of the conversion ends up being taxable. If a highly appreciated 401(k) gets rolled over into a traditional IRA, which then gets converted into a Roth IRA, there will be a higher conversion cost and a bigger tax amount due as a result.

Problem #4: Converting The Wrong Assets Into a Roth Account

Asset allocation is all the rage in investment strategies, but you need to really think about which assets deserve to be in a Roth.

Let's say you own stock in a company that's constantly on the rise, like Google or Amazon. The sooner you get those funds into a Roth account, the faster you can stop worrying about paying taxes on them when you retire and start making your RMDs.

However, financial instruments with low expected returns are a waste to include in the tax-free growth potential of a Roth. Low-yield bonds and annuities that don't have the potential to gain more than they're defined at should not be converted to a Roth, because you're not gaining any sort of potential tax break by paying the conversion fee now as opposed to retirement.

CHAPTER 5:

MAKING MINIMUM REQUIRED DISTRIBUTION ERRORS

Once you hit age 72, you have to start making mandatory RMDs from your current 401(k) fund. The only exception to this rule is if you're still working at that age, but own less than 5% of the company you work for.

In other words, you're still working because you still need the income, but you're not running the company you work at. In theory, you'd like to take out just enough money to cover your planned living expenses for the year, since that'll minimize how much tax you're having to pay each time you make a withdrawal. But if the RMD is more than you planned on withdrawing, you're going to pay the higher tax amount on that withdrawal whether you plan to use it or not.

No matter how close you are from retirement, keep an eye on what the federal law says about what age your first mandatory distribution is and exactly how much you'll need to withdraw. The penalty for missing a required distribution is a

staggering 50% of the amount that should have been withdrawn, so it's way more than a mere slap on the wrist.

Problem #1: Taking Your RMDs Out at The Wrong Time

Until recently, the law stated you had to take your first RMD out when you turn 70.5, but that was changed to age 72 to reflect the longer average lifespan. You can delay that first RMD until April 1 of the year, after you turn 72, but you'd also have to take out your second RMD by December 31, 2022.

You wouldn't take the income tax on either payment in 2021, but pay for both on your 2022 income tax return.

Problem #2: The High Cost of Multiple RMDs in One Year

Not only does taking multiple RMDs in one year mean you have to pay more income tax, but it also might mean you're bumped up into a higher tax bracket as a result. That could greatly alter the amount of income tax you're paying on your RMDs and could hamper the amount of Social Security you receive.

On the tax front, say you have to take $85,000 out for each of your RMDs. If you did the first one by December 31, 2021, and the next one by December 31, 2022, and had no other source of income, you would be in the 22% tax bracket both years.

That would mean paying $18,700 in taxes per year for a grand total of $37,400 on $170,000 of withdrawals.

However, if you pushed your first RMD ahead into April 2022, then took out a second RMD on December 31, 2022, that would be all $170,000 at once. This would push you up to the 32% tax bracket and have you pay $54,400.in taxes, resulting in a loss of $17,000 compared to the first scenario.

Problem #3: Withdrawing The Wrong Amount

How much should your first RMD and every subsequent RMD be?

It's different for every person. The number is based on the balance in your account. That sum is divided by a life expectancy factor based on your age, which can be a little gruesome, but is the preferred formula. To be absolutely sure you are going with the most current information, refer to the Uniform Lifetime table (Table III) in Appendix B of IRS Publication 590-B, because the IRS is the ultimate authority in the matter.

There are exceptions to be aware of, however.

If your spouse is your sole beneficiary, and he or she is more than 10 years younger than you, you'll need to use Table II, known as the Joint LIfe and Last Survivor table. If you fail to withdraw the correct amount, then the difference between what you withdrew and what you should have is taxed at 50%. So, if you made a small error in your calculations and withdrew $50 too few, you'll only be fined $25 for it.

But if you leave out a zero in your computations and withdraw $50,000 too few, you'll be on the hook for a $25,000 penalty. There is one way to avoid this massive fine, but you have to act fast and dance to the IRS's often confusing tune to do so.

The first step is to correct the error by pulling out the required RMD amount that you missed as soon as possible, and making it the exact amount that was left out of the initial payment. Next, request and fill out Form 5329 from the IRS for each year the distribution error occurred.

Here things get tricky, as often seems to be the case with the IRS. On Line 54 of this form, it asks for you to explain why you need a penalty error. But instead of putting the reason on this line, you should mark a request for the waiver in the check

box next to that line, and attach a typed letter explaining why the error occurred and what you have done to correct it.

Doing these steps quickly and thoroughly will give you a good shot at having the IRS waive the 50% penalty. Self-reporting the error goes a long way towards convincing the IRS you made an honest mistake and want to correct it. Much like if you owe them money at the end of the year, setting up a payment plan yourself is almost always agreed to instead of them reminding you that you still owe.

Problem #4: Confusing RMD Rules for IRAs and 401(k)s

It's highly likely you'll have more than one retirement account by the time you hang up the work clothes and start doing all those bucket list things you've been promising yourself for decades.

If that's the case, then you have to be sharp when it comes to the different sets of rules for your different retirement accounts to ensure you don't run afoul of the IRS. We've already discussed how severely they can punish you if you get caught not taking enough money out. If you have more than one 401(k) account, you have to calculate the RMD separately for each one and take the required amount from each one.

This confusing aspect is why a lot of people roll all their 401(k) s into one account before they get to retirement age, so they have less to worry about. However, if you have different 401(k)s, then you have to go through the process of taking the total in each account and dividing it by the life expectancy factor based on your age from either Table II - the Joint Life and Last Survivor Table or Table III - the Uniform Lifetime table - in Appendix B of IRS Publication 590-B.

A big problem many people run into is they treat 401(k)s like IRAs when they reach this age. With traditional IRAs, all you have to do is add up the sum of all your accounts, divide by the appropriate life expectancy factor, and withdraw that

amount from any of your traditional IRAs. It doesn't matter which one, as long as a minimum withdrawal amount is made.

Of course, if you have a Roth IRA, the IRS doesn't care when you withdraw the money, because you've already paid the taxes on those contributions up front. The same is not true for Roth 401(k)s. The government says you have to take out the RMD amount of these as well each year, even though the funds are not taxable. The only way to avoid it is if you are still working for the employer your Roth 401(k) is with.

Problem #4: Not Understanding The Special RMD Rules if You Are Working Past Age 72

Plenty of Americans need to keep working into their 70s to retire at a later age, and plenty keep working because they want to.

If you have a 401(k) account with a company where you are working at or beyond age 72, and you don't own more than 5% of said company, then you do not have to take your RMD from that company's fund until you retire.

However, that rule does not apply to any other 401(k) accounts you might have from previous employers.

Even if you're working, you'll need to figure out the RMD amounts when you hit 72 and make the proper withdrawals. Obviously, the best way to avoid doing that, and potentially elevating your tax bracket significantly, is to roll over your previous 401(ks) into the account with your current company, which would make all of your funds immune to RMDs until you retire.

Problem #5: Not Specifying Which Investments to Sell for Your RMD

Some 401(k) administrators will take your designated RMD amount pro rata, meaning from each of your investments

across the board unless you say to do so otherwise. This might cause you to sell stocks or other funds at a loss in order to make the payment and botch any investment strategies you had in place.

When you have figured out how much money you need to take out to satisfy the RMD requirements, you can shift those funds to a different investment vehicle, say a money market account or a stable-value fund, to ensure it doesn't lose value in the days leading up to your redemption. Or, that the funds aren't taken out of investments you'd like to hold on to longer.

You can then inform your administrator to redeem the amount from that other fund in order to satisfy the IRS requirements.

Problem #6: Taking Your RMD from Your Spouse's 401(k)

What's mine is yours in a marriage, except when the IRS is involved.

Even if you and your partner have been filing joint tax returns for the last 50 years, you are still each individuals in the eyes of the Internal Revenue Service. That means individual RMD withdrawals from your individual 401(k)s every single year.

So if you're both turning 72 this year, and the IRS calculator says Steve has to withdraw $85,000 from his 401(k) and Peggy has to withdraw $75,000 from their 401(k), they can't get clever and take $160,000 from Steve's fund and call it a day. If they go this route, Steve's conditions will be satisfied, but Peggy's won't be and the IRS will flag the account.

Even though the couple jointly took the necessary amount for both of their funds, Peggy's account remains untouched, and she will be taxed the missed RMD of $75,000 at 50%, meaning the two will owe a penalty of $37,500.

CHAPTER 6:

NOT GETTING THE BENEFICIARY SET UP CORRECTLY

We realize thinking about the end of your life isn't exactly cheerful, but it's going to happen, and when it comes to the peace of mind and care of your loved ones, there's no better way to take care of them than to have all of your assets distributed exactly the way you want.

Be aware beneficiary forms on your 401(k), and other retirement accounts, take precedence over any other form of estate planning document. Whoever is directly designated as a beneficiary is going to receive those funds when you pass away.

As you near retirement age, you should periodically review your beneficiary forms to ensure the wishes you made are reflected in the paperwork. If you make a mistake that requires your family to try and make changes to the beneficiary designation after your death, it will take tens of thousands of

dollars in legal fees as well as rulings and direct intervention from the IRS and no guarantees of success.

Problem #1: Not Having a Designated Beneficiary

Plenty of people assume once they sign up for a 401(k), their spouse is naturally their beneficiary. Infact, their estate might become the beneficiary by default if you don't designate someone specific.

It will be up to the plan documents for a 401(k) to determine who gets the plan's assets, but if a person's estate is the beneficiary, two things can happen that could cause problems for your family.

First, the distribution requirements of your 401(k) will be accelerated.

It could be as few as five years after your death that your spouse is required to start taking RMDs, which could dramatically impact their own tax situation in a very negative way. Another possible outcome is the retirement plan becoming a probate asset since there is no beneficiary.

This would result in the transfer being subjected to probate fees based on the value of your plan as well as the state you lived in. If you live in a state with a high income tax rate, and your relatives live in states with no income tax, they'll receive considerably less benefits as a result. The transfer of the plan will also take a lot longer going through the probate process, which would hamper your relatives' ability to do things like pay for your funeral or other last wishes with money from that account.

Problem #2: Naming Your Estate as The Beneficiary

This has the same potential negative effects as not naming a beneficiary at all.

Beyond the developments that can occur mentioned in the section above, you run the risk of people you had no intention of leaving money to getting ahold of it by protesting the estate, such as ex-spouses, their children, estranged family members, step-parents, step-siblings and/or step-children you have some ties to legally, but no relationship.

Don't make the mistake of underestimating how far some people will go to get their hands on money they think they're entitled to.

Problem #3: Not Naming Your Spouse as The Primary Beneficiary

On January 1, 2020, the SECURE Act went into effect, limiting the ability to stretch out the distribution of a person's retirement plans over a lifetime. It does still allow for lifetime distributions for one category of beneficiaries known as Eligible Designated Beneficiaries (EDBs).

People falling into these categories include a surviving spouse, any minor children (under 18 years old at the time of death), any disabled or chronically ill individuals or any individual who is not more than 10 year younger than the owner of the plan. Adult children and grandchildren are not included.

If someone is a designated beneficiary and is not a qualified EDB, they must empty the retirement plan account by the end of the 10th year following the plan owner's death. Therefore, if you are married, naming your spouse as the primary beneficiary is the safest way to allow the distributions to take place over a longer period of time and allow your spouse to become the new decision-maker in how the account is distributed after their own death.

Problem #4: A Lack of Contingent Beneficiaries

It happens way more often than you might think.

A person names their spouse as their primary beneficiary at some point, then the spouse dies first, or the couple dies together, in a tragic accident. As you approach retirement age and begin reviewing your beneficiaries, you must ensure you name contingent beneficiaries for each of your 401(k) accounts.

This designates the person as your backup beneficiary in case the primary beneficiary dies before you or at the same time. If you fail to do so, you go right back to the first mistake in this section where your estate becomes your designated beneficiary.

This can put considerable strain and undue suffering on your children, or other relatives, if they are dealing with the loss of both parents at the same time and also are unable to access the funds you had intended for them after your death. It can be a double whammy if both you and your primary beneficiary are working, and both name the other as primary beneficiary of each other's retirement accounts.

Imagine Chip is 70 years old and his wife, Joanna, is 68. They each have the other as their primary beneficiary. If Joanna dies of a stroke at 68, her 401(k) becomes Chip's by the letter of the law.

But if Chip is depressed from her death and doesn't bother changing his own primary beneficiary to one of his children or a sibling, and doesn't have a contingent beneficiary named and dies a year later, than both his and Joanna's accounts will go his estate and be mired in probate for an undetermined amount of time. It will also accelerate the timeline on the RMDs from Chip's account once his relatives are awarded the accounts.

Problem #5: Failing to Account for Life Changes

In line with the example from the previous section, we must account for life changes and update our primary and contingent beneficiaries accordingly.

If Chip names his older brother as his contingent beneficiary, but that brother is diagnosed with Alzheimer's and has to enter a 24-hour assisted living facility, he is no longer the best candidate to be in control of Chip's account once Chip passes.

Even though losing a spouse or close loved one can be devastating, life changes must be reflected in your primary and contingent beneficiary choices to prevent irrevocable mistakes from occurring. This goes for life insurance policies and annuities as well, and should be reviewed after deaths, marriages, births and divorces.

CHAPTER 7:

FEES, OLD ACCOUNTS, AND TOO MANY ACCOUNTS

Incredibly, people forget all kinds of things about their 401(k) accounts, or they never knew them in the first place. They buzz through the verbiage when they sign up for an account and don't pay attention to any of the terms, conditions or fees that apply to what they sign up for.

While you'd think most people would be razor sharp when it comes to their own money, there are millions who know next to nothing about what they are being charged for, or even where their money is!

Problem #1: Not Knowing What Your 401(k) Fees Are

You might not be able to touch your 401(k) money until retirement without significant penalties, but that doesn't mean other people can't. You are going to pay fees every year for all sorts of maintenance and reporting mechanisms associated with your account, and there's no two ways about it.

Your plan administrator isn't going to make money paying all those expenses for you, so they go with the most logical

source of money - yours! What fees are included in this process?

For starters, there are reporting requirements your plan administrator has to send to the federal government each year to make sure everything is on the up and up. In the age of digital technology, these reports can happen via automated process, but that doesn't mean they are free, and somebody has to foot the bill - you.

That same administrator is making your 401(k) plan available for you to view, adjust your settings, and talk to customer service representatives via a website and call center at your convenience. That's another cost that gets paid for by your fee contributions.

Then there's the issue of rollovers.

If you leave your job, you obviously want to take your 401(k) plan with you to your next employer. More often than not, that means moving it from the current plan administrator to another brokerage house. Since no company willingly likes giving up an investment client, it's definitely going to charge you yet another fee to make that transfer process happen.

Every 401(k) plan has different fees, which rely on multiple factors like what you're investing in and how many people are involved in the company's 401(k) plan alongside you.

Those fees also continue into your retirement as long as there is still money in your account, even after you stop making contributions to it. A survey by Ameritrade reports 27% of investors don't know how much they pay in 401(k) fees, and 37% don't realize they're paying fees at all!

There is clearly a disconnect in the American workforce around the fact that investment account providers are in the business of making money, not just being a benevolent force that kindly holds your dollars for you until you retire. Overall,

95% of 401(k) participants pay some manner of fee for their account.

Problem #2: Not Understanding The Two Biggest 401(k) Fees

There are four categories that 401(k) plan fees typically fall into: Investment, Administrative, Individual Service and Custodial.

The one that is going to get everyone is known as the 12b-1 fee, which comes to you from the distant past, namely the Investment Company Act of 1940. They are typically listed as marketing and distribution fees and are there for the third-party companies who sell 401(k) plans to your employer.

These fees are not allowed to extend past 0.75% of the assets of your plan, but some funds work around that by also charging a 0.25% shareholder services fee. So, that's a full 1% of your assets going towards your plan just basically existing.

When you are 35 years into your career and retirement is right around the corner, that 1% is going to seem a little more insulting. If you have $850,000 in your account, every year, $8,500 of it is vanishing without a trace.

Even more perplexing is the fact that the 12b-1 fees are separate from the investment management fees, which is the cut that the 401(k) provider takes for itself from your investing success in order to keep running its business and turning a very healthy profit as well. These fees fall in a huge range from as little as 0.10% all the way up to 2% of your assets under management (AUM).

Why such a wide range?

It is used by individual companies to compensate their investment managers for their expertise in the market, and the time they spent managing portfolios and selecting stocks

and other financial instruments to be offered. It also covers the administrative costs of each fund and the expenses associated with investor relations - including marketing, emails, call centers, investor portals and online chat messenger services.

Problem #3: Not Knowing What to Do With Old 401(k) Plans

When you change jobs, you can usually leave your retirement account balance in the 401(k) plan set up by that company if you so choose. You might choose to keep it because it has good investment options, it has low costs or contains company stock you want to hold on to for the longer term.

Since most people career hop quite a few times over the course of their working lives, you may end up with multiple 401(k) plans at several different employers. Don't forget about them when you move on!

If you wind up with several 401(k) accounts across many employers, things are going to get confusing as you near retirement age and end up having to pull money from each account at a certain time to avoid penalties.

A much smarter plan is to open an IRA that rolls all your 401(k) balances into one account or open a few different IRAs to diversify, or move them all into your current 401(k) plan so you know exactly where everything is. If you have the choice of the three, opening a few IRAs and rolling your different 401(k)s into those might be the smartest move, because it will allow you a measure of freedom to decide which IRA you want to pull from first when it's time to start redeeming your RMDs.

Problem #4: Forgetting About Your 401(k) Plan Altogether

Most of us are thrilled to find a $5 bill in the couch cushions, because it translates into paying for a new app for our smartphone or our favorite frozen coffee drink on the way to work

tomorrow. So how are people forgetting they have a 401(k) account out there somewhere with money in it altogether?

Incredibly, it happens way more than you think through a combination of mishaps such as people leaving a job under tragic circumstances and not leaving a forwarding address, people losing their financial records in a fire or theft, dying without leaving information for how a beneficiary can access their funds and the much more frequent case of people never knowing they had a 401(k) account to begin with because they never bothered reading any of the information the HR department sent their way when they got the job in the first place.

Ready for the really mind-blowing news? By the end of 2021, there were 25 million ‘forgotten’ 401(k) accounts in the United States with an average balance hovering near $55,000. These 25 million accounts combine for almost $1.35 trillion - yes trillion, with a t - of assets.

Considering the entire sum of US credit card debt is “only” $900 billion, and you really get a sense for how much money is floating around unclaimed! If you suspect you have an account lying dormant from a previous job, the easiest first step is to contact that company and see if they can locate your account.

Make sure you have your correct name from your time of employment there, the approximate dates you worked there, the location you worked at and your social security number in hand to make it easier for them to look you up.

If they can’t find your account, or if the company has gone out of business or was absorbed by another firm, your next step is to search for your former employer at either the US Department of Labor website or by searching for your own name at the National Registry of Unclaimed Retirement Benefits. If something comes up, you can contact the company

that is your plan's administrator and confirm your identity by giving them pertinent information like your social security number or answering security questions they might have attached to your account.

From there, you can see how much you have, how much they're charging you in fees, what your investment options are, and decide if it makes more sense to keep the money where it is (while paying more attention to it) or rolling it over to an IRA or your current employer's 401(k) plan.

WALL STREET'S BIGGEST LIE HAS BECOME YOUR BIGGEST MISTAKE

There is a lot about the current retirement planning system that is completely outdated and broken.

Just look at your own personal experience with investing and retirement planning.

You go to your company's 401k manager or your advisor to put together your retirement plan.

They ask, "How much risk do you want in your investment portfolio?"

You tell them and they say, "Here's what we're going to do to reduce your risk while helping your money grow."

Then they go into some long explanation about how they're going to invest your money to accomplish your goals.

How they'll put you in some fund like American Funds, Vanguard, Fidelity or some other large mutual fund.

Fundamentally, there is nothing wrong with mutual funds holistically, but the truth is advisors put a lot of people in those funds because they require very little management by the advisor.

Then, they'll tell you how it's so great because you're "minimizing" your risk while still capturing the market gains using "modern portfolio theory."

And when the meeting is done, you walk away feeling pretty good about your plan.

And for a few years everything seems to go well, your account is growing and you feel like everything is fine.

Then it happens.

It happened when the tech bubble burst in 2000.

It happened with 9/11.

It happened when the housing market tanked in 2008.

The market crashes.

Maybe you've even experienced this for yourself.

And when it happens, suddenly your "diversified" portfolio, the one that's supposed to protect you from a crash, takes a huge loss.

Some people have lost as much as half (or more) of their retirement savings.

For many people, like John and Sarah, it's devastating.

One day everything is fine, the next day you're on job boards looking for part-time jobs at Wal-Mart or McDonalds.

You're cancelling trips you've had planned for years.

You're putting your house on the market and asking your kids if you can move into the basement.

And when you go to talk with your broker or 401k manager, they give you some long history lesson about the market followed up by:

"Don't worry, it'll come back".

And they're not wrong, it will come back...eventually.

But look what happened after the crash of 2008.

It took 13 years for the market to get back to where it was before the crash.

Do you have that kind of time to wait when you're close to retirement?

And does their explanation make you feel any better when you just lost half your retirement money?

NO!

And therein lies one of the biggest reasons it's so challenging for you, you've got a traditional Wall Street broker managing your money.

You may think you don't, but you actually do.

Almost everyone, including your current advisor or 401k manager, is a traditional Wall Street broker.

Now, they probably aren't doing anything as bad as the original Wolf of Wall Street, Jordan Belfort, or Bernie Madoff, but as history has shown us, something with Wall Street is very broken.

Many brokers, to this day, still use a boiler plate "buy-and-hold" strategy.

This simply means they take your money, invest it in the market, then sit back and wait to see what happens.

They cover up their lack of work with terms like "diversified," "modern portfolio theory" or "actively managed."

When in reality, they're doing very little to actually "manage" your money.

It's the reason they have no answer for you when the market crashes and YOU lose money.

Wall street brokers are getting paid for doing nothing while you're losing 50% of your retirement nest egg

This is the great illusion of Wall Street.

It's why you're not alone in your frustration with the current system and the traditional ways of Wall Street.

While the market is crashing and you're losing half of your life savings, they're still getting paid while doing nothing more than watching it crash.

How they do things is outdated, it's broken and it's hurting your retirement money.

Let us show you what we mean.

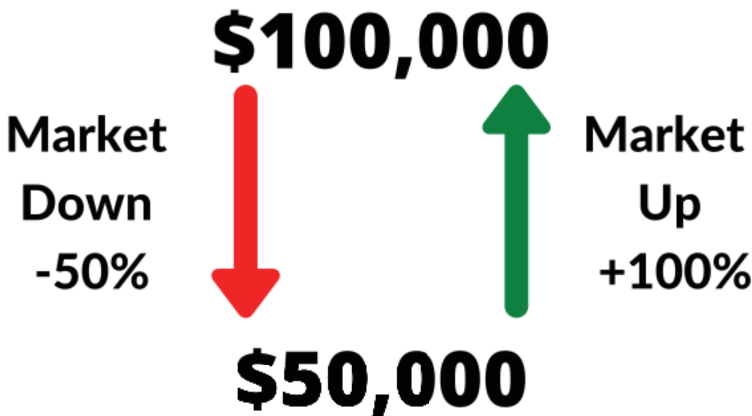
Let's say you put $100,000 into a mutual fund.

And in the very first year the stock market goes down 50% (like it's done twice in the last 20 years).

You now have $50,000.

Now let's say the market does something it's never done before, and goes up 100% the next year.

Your $50,000 would get a 100% rate of return, so you now have the $100,000 you started with.



So, how does Wall Street calculate their rate of return over these two years?

They take the negative 50% you received in the first year and add the positive 100% you received in the second year to get 50%.

Then, they take your 50% and divide it by 2 (the number of years of observation).

This equals out to a 25% positive rate of return.

How Wall Street Calculates Rate Of Return

-50%	+	100%	/	2	=	25%
1st Years Return		2nd Years Return		Years In Fund		Wall Streets Return

Isn't that a great rate of return?

Who wouldn't sign up for that mutual fund in a heartbeat?!?!

But wait a minute, something isn't adding up here.

You started with $100,000 and ended up with $100,000, so in actual dollars and cents you would have made:

Zero.

Nada.

Nothing.

Wall Street is telling you that you can make a 25% return in a fund, when in reality you could actually be getting $0.

All That Risk for 5.3% Return?!?!?

Have you ever calculated the actual rate of return of the market long term?

Since 2020, we've had some years with great rates for return...

S&P 500 21 YEAR RETURNS (AVERAGE VS. ACTUAL)

$100,000.00

Date	Average Value*	Actual Value**
12/29/2000	-9.1%	$89,650.00
12/31/2001	-11.9%	$77,869.99
12/31/2002	-22.1%	$59,687.35
12/31/2003	28.7%	$76,059.59
12/31/2004	10.9%	$83,384.12
12/30/2005	4.9%	$86,435.98
12/29/2006	15.8%	$99,003.78
12/31/2007	5.5%	$103,201.54
12/31/2008	-37.0%	$63,726.95
12/31/2009	26.5%	$79,792.51
12/31/2010	15.1%	$90,811.86
12/30/2011	2.1%	$91,592.84
12/31/2012	16.0%	$105,102.78
12/31/2013	32.4%	$137,831.79
12/31/2014	13.7%	$154,978.07
12/31/2015	1.4%	$155,179.54
12/30/2016	11.9%	$171,737.19
12/29/2017	21.8%	$207,080.71
12/31/2018	-4.4%	$195,422.06
12/31/2019	31.5%	$254,517.70
12/31/2020	18.4%	$298,167.48

- Includes dividends
- Assumes dividends are reinvested and includes an assumed investment fee of 1.25%

And we've had some years with some not so great returns:

S&P 500 21 YEAR RETURNS (AVERAGE VS. ACTUAL)

$100,000.00

Date	Average Value*	Actual Value**
12/29/2000	-9.1%	$89,650.00
12/31/2001	-11.9%	$77,869.99
12/31/2002	-22.1%	$59,687.35
12/31/2003	28.7%	$76,059.59
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- Includes dividends
- Assumes dividends are reinvested and includes an assumed investment fee of 1.25%

When you go and add up all the return numbers, divide the total by 21 years of performance, you'll see that the average rate of return was 8.2%.

Not bad. Maybe not as great as you thought it was doing, but still not bad.

But here's the problem, that's not the actual rate of return you're probably getting.

You see there's a big difference between Average Rate of Return versus Actual Rate of Return.

You see the average rate or return, what I just calculated, isn't the true actual rate of return of the market.

Let's say 21 years ago, you found a bank that offered a 21-year CD.

Actual Rate of Return calculates the rate of return they would have offered you to give you the same amount of money as investing it in the stock market back then.

And you should always look at the actual rate of return.

To find this number, you need to use a calculator known as a Future Value Calculator.

Using a future value calculator to grow $100,000 to $298,167.48 in 21 years, you would need a return of 5.3%.

So, that means over the last 21 years the market has as a whole only generated a return of 5.3%.

A little shocking isn't it.

Especially when you consider how much risk you're taking on to get that kind of return.

Looking at the charts above, it's obvious you'll see much higher than this some years, but as you can also see the market always corrects.

Always.

And right when you think the market is up, and you'll see those great returns forever, it all changes in an instant.

Look at the story of John and Sarah.

The world is unpredictable, it always has been and certain moments remind us of that.

It's happened before, and it will happen again.

That's why right now is all about protecting the money you've spent a lifetime building.

Always remember Warren Buffett's two rules of investing.

Rule Number #1: Never Lose Money

Rule Number #2: Never Forget Rule #1

Now sure, you still want some growth in retirement, but don't risk your life savings with the hopes of gaining a windfall of return in retirement.

Would you go to Vegas and put all your life savings on red and see where the roulette wheel lands?

Then why are you doing it with your retirement savings by leaving it in the market?

The Secure Retirement Plan

As we hope you've started to see from reading this book, the plan that got you to this point isn't the one that's going to serve you well in retirement.

When you were saving for retirement, you were deferring your taxes, getting company matched contributions and you had time to make up for any major losses you incurred. Also, you weren't relying on this money to live your life.

Where you're at right now, either a few years before retirement or currently in retirement, it's all about protecting the

money you've spent a lifetime building, and doing that takes a completely different plan. This goes beyond just diversifying your risk by moving more of your 401(k) money into safer investments, because if the market crashes your entire portfolio will still take a huge hit.

This doesn't mean you shouldn't continue growing your money in retirement, but you shouldn't risk all of your retirement dreams in the hopes of making a little more money. As history has shown us, everything can change in a single day.

That's why our group, the Consumer Retirement Network, created our Secure Retirement Plan.

A Secure Retirement Plan is unlike anything most people planning for retirement go through, because as we've shared most people who help with financial education don't focus on this way of thinking, yet it's so important.

That's why we're giving you the opportunity to see how a Secure Retirement Plan can help you.

There's a good chance you're making at least one of these mistakes with your 401(k) or somewhere else in your retirement plan, but everyone's situation is different. So knowing exactly how it's going to impact you, or what to do about it, can be challenging without help.

That's why we've put together a team of coaches who will work to understand your specific situation and give you a plan for fixing any mistakes you're making.

We used to charge $497 to build these plans, but for those who have at least $150,000 in retirement wealth and want a more secure retirement plan, we are giving away our plans for free for a limited time.

The reason for this is we believe if we give you a tremendous amount of value with this to begin our relationship, there may

be other things we can help you with. But you should know, even if we help you with other things we have lined up partners who will pay us for our work.

So you'll never be charged directly for any of the work we do for you.

So if you'd like to get started and see how we can help you, visit (**www.consumerretirementnetwork.org/secure**). There you'll enter your information, and our team will reach out to set up your first appointment for you.

We hope you've found this information valuable, and we look forward to helping you have a more secure retirement where you never have to worry about ever running out of money.