IRA and 401k Mistakes Webinar Script

(***Sizzle Reel Runs***)

Welcome to this evening's webinar, designed to help you identify and eliminate the ten most common IRA and 401(k) owner mistakes. Now, tonight's event is a live event, so please, please, please stay focused. It's only going to be 30 to 40 minutes long, I promise. Information from tonight's event will likely prove massively important for your retirement success. I encourage you to do everything you can to stay focused for at least 30 to 40 minutes. So, please put your phone on silent so you're not distracted by that. Close any other programs you might have on your computer as you're watching this, and most importantly, there's a chat button on your screen. I encourage you to click on that chat button and ask any questions that you have. At the end of our program tonight, I'm also going to take a few minutes to answer your questions. I can't promise that I'll get to all of the questions, but I will do my best.

If you stay to the very end, you'll receive a special offer. What is that offer? Well, that offer is a personalized IRA and 401(k) analysis. It's not just a cookie-cutter report or anything like that; in fact, it's an analysis that is fully personalized to your own personal situation and retirement goals.

Let's begin with a brief look at retirement plans right here in the United States. Many say that retirement plans essentially began in 1935 when the FDR signed the Social Security Act. The Social Security Act, as you should know, is designed to supplement your pension; to supplement your personal savings, not to replace it. But then, in an attempt to make the population less dependent on Uncle Sam in 1974, ERISA was signed by Congress. The Employee Retirement Income Security Act gave birth to today's IRAs and 401(k)s. The motivation was to give you an incentive to plan for your own retirement.

What types of incentives? Well, the most common that people think of is getting tax deductions on your contributions, but more important than that is the tax deferral on gains from year to year as your money grows. And let's not forget about those payroll deductions that help us with savings so that we're more likely to save and less likely to spend. Lastly, exemptions from creditors are another incentive. Again, there are several nice incentives to get us to start to plan for our own retirement and not just rely on pensions and Social Security. But, as you know, there are still catches involved, as there always are. The main catch is that IRAs and 401(k)s are what many refer to as a 'tax prison.' Why? Well,

all distributions are fully income-taxable and it's at ordinary tax rates. Just think about this for a second. Let's suppose you've got a million dollars that you've worked tirelessly to build over the years, just to use a round number. In IRAs or 401(k)s, the tax rate is 30%, meaning that $300,000 of that belongs to the IRS; only $700,000 belongs to you.

With the stroke of a pen in Congress, taxes are raised from 30% to 40%. Now, the IRS has $400,000, and your portion of the equity would drop to $600,000. Essentially, they've just taken $100,000 of your hard-earned wealth. In addition, you have penalties if you don't use this money for retirement, such as withdrawals before age 59-and-a-half, or if you fail to take distributions at age 72. So, what they're doing is they're giving you a tax break when you buy the seed, but ultimately, when you go to harvest the crop, you need to pay tax on the entire crop.

So here are the top 10 IRA mistakes that more than 80% of people tend to make.

Mistake number one: not understanding how the new SECURE Act from 2019 will impact your retirement accounts. This was one of the most important pieces of retirement legislation in well over a decade and became effective just a bit over a year ago. It has new benefits for IRA owners, such as eliminating the age 70-and-a-half limit for contributing to IRAs, so you can now contribute for longer. It also increases the age at which you must start taking required minimum distributions. It increased it by a year and a half to age 72, so you can contribute longer and wait a little longer before you make withdrawals. The bottom line is, these new benefits will help your retirement plans grow and essentially provide you with more income during your retirement years. Now, I do want to note here that if you turned 70-and-a-half before the end of 2019, then you're going to have to continue to take your RMDs; you cannot wait until age 72. Still, you may be able to neutralize some of the tax on these RMDs if you have earned income.

Let's look at an example. Let's say you have a $14,000 forced required minimum distribution, and that's taxable, but because you're working, you make a $14,000 IRA deposit tax-deductible. Seven goes to your account; seven goes to your spouse's. The net result is that you have zero additional taxable income and, therefore, zero net tax, but of course you have to follow some rules. You have to be over a certain age limit in order for that to happen, you must have earned income, and you can't

contribute any more than your earned income. You can only do $14,000 if you're earning $14,000. And, as a further point of note, many retirees' income is not counted as earned income. Social Security, pensions, interest dividends, rental income, et cetera do not count. Only money that you earn by going to work or from making profits through a self-employed business counts.

But there are also some new rules that affect your beneficiaries in the SECURE Act. You see, the old rules basically said that a non-spousal beneficiary could spread out the IRA withdrawals over the course of his or her life expectancy. The new rules say that all the money has to come out; therefore, taxes have to be paid within ten years. This means that non-spouse beneficiaries can basically do one of three things. Number one: take all the money out today and pay the hefty sum of tax. Two, they can spread out the withdrawals (and, therefore, the taxes) over the next ten years. And last, as number three, they could wait until the 10th year and pay all the taxes at that time by taking a full distribution at that time.

In summary, mistake number one is simply not understanding the SECURE Act and how it affects your retirement.

Mistake number two is missing a required minimum distribution, known as an RMD. The first distribution now is due by the first of April of the year after you turn age 72, and every subsequent year has to be done by December 31st of that particular year. Missing a distribution in a particular year will cause a 50% , that's five-zero, penalty, which is why many say this is the number one mistake that IRA owners make. Now, I personally call it the number two mistake, and when we get to number seven, you'll see what I refer to as perhaps the most costly mistake. After all, this is a mistake that you'll only make once. If you pay the 50% tax for one year, I guarantee you won't make this mistake a second time, but it's still a very costly mistake nevertheless.

Let's look at an example. You have a $10,000 missed required minimum distribution. The taxes on that should have been $3,000, but now you have to pay the $3,000 you would've paid plus an additional $5,000 penalty. In summary, the IRS gets $8,000, while you only get $2,000. The IRS has effectively become your senior partner!

Moving on to mistake number three: , not properly designating beneficiaries. This is a mistake that can leave a glaring hole in your estate plan and not show up until it's too late for you to do anything about it. Let's consider here the famous US Supreme Court ruling about plan beneficiary forms for IRAs. It's Kennedy versus the Plan Administrator of the DuPont 401(k). The judges unanimously voted in this ruling simply that Mr. Kennedy's $400,000 account went to his ex-wife, whom he had been divorced from for several years. Why? Because she was still the named beneficiary on the account. It didn't matter that, under the Divorce Decree in 1994, his ex-wife waived all of her rights to any benefits from this retirement plan. It didn't matter that they agreed that the proceeds were to be paid to their daughter. Because they failed to change the beneficiary document itself, the money went to his ex-wife when Mr. Kennedy died in 2001.

Why? Because the beneficiary form, no pun intended, trumps everything. It doesn't matter what you say in your will, your trust, your divorce decree, or any signed document; the beneficiary document overrules it. Here's why this is so important. It's because of what we call 'too much, too quickly.' Studies repeatedly show that the average inheritance is squandered between 90 days and 17 months of its receipt. In my experience, I know that those who save money are typically better at handling it than those who inherit money, and a properly set up beneficiary document can help you prevent a lot of these losses. Losses are common due to spendthrift issues, like we just hinted at, as well as divorce, bankruptcy, accidentally disinheriting grandchildren, avoiding the cost and time of probate, or just inexperienced beneficiaries making bad choices in any way with the 401(k) and IRA. So, the bottom line is simply that it's essential to get a beneficiary checkup, which you will have available to you if you stay until the end, as part of this IRA/401(k) analysis. You can have this done at no cost, no obligation, and essentially correct any mistakes that you've made before it's too late.

So now we've talked about the beneficiary designations. Let's pivot to mistake number four, which is not knowing the new IRA and 401(k) rules and how they could cause immediate taxation on your money.

Why are these rules so important? Well, because there are two ways to transfer money to your IRAs. One is indirect, and the second is direct. Let's break each one down.

Indirect rollover is where money gets transferred to you, and you have 60 days to roll it over to the next custodian. The catch is you can only do one indirect rollover every 365 days. If you attempt to do more than one in a given year, then that rollover is 100% taxable and has a 20% tax withholding requirement. Essentially, it's disqualified, and you've withdrawn the money from the IRA.

So, let's take a look at an example. Poor John has two IRAs, one with $50,000 and one with $250,000. He decides to do an indirect rollover with his $50,000 IRA in January, and he likes the way the investments are managed, so a few months later, he decides to do a second rollover with his $250,000 IRA. Unfortunately, because the second rollover is indirect, he'll need to pay income tax on the entire $250,000; there's simply no way around it. So, what could he have done instead? Well, John could have done a direct rollover. A direct rollover takes you out of the middle ground where the money is transferred from the IRA custodian to the other IRA custodian without touching your fingers. And, because it's direct, you can do it as many as you want in a given year without any tax consequences and with no 20% mandatory withholding.

Okay. Now, we're moving on to mistake number five, which is overpaying for fees and loads. Loads are another word for a commission on your IRAs, your 401(k)s, and other retirement accounts. This evening, you'll learn how to free up your retirement accounts from excessive fees and loads.

Let's look at another example. $200,000 is sitting in an IRA at 5% for a 10-year period. One has an account with a fee of one-and-a-half percent, while the other one has no fee. The fee of one-and-a-half percent allows the account to grow to $282,000 over the course of 10 years. But, if you eliminate the fee, you're up to $325,000 now, an extra $43,000; that equates to 15% more simply by eliminating the fee.

You might be surprised about the hidden fees that are actually involved with 401(k)s. These include investment fees, plan administration fees, and individual service fees. Smart-asset-dot-com estimates these fees to be an average of over 2% per year in these plans.

Alright. Moving on to mistake number six, not knowing the secret to convert your retirement accounts to tax-free income is a major issue. From the day you first contributed to your retirement plan, the IRS became your partner. Essentially, it has a lien on the account. And, of course, there comes a time

when the IRS wants an exit strategy. When is that? That's when you turn age 72, because now they want you to start taking required minimum distributions and pay tax on that money. Essentially, with the IRA or a 401(k), you have an I-O-U to the IRS. Many find the Roth IRA conversions to be a formidable solution against this because it lets you pay tax on your IRA when you convert. You choose and therefore, hopefully you can do it when you're in a lower tax bracket. And, down the road, when you own a Roth IRA, you're not forced to take any required minimum distributions since all withdrawals will now be tax-free as distributions, and gains are all income tax-free.

Remember before when we talked about paying tax on the harvest but not the seed? Essentially, a Roth conversion allows you to pay tax today on the seed but save a fortune in taxes in the long term, because now the harvest is tax-free.

All right, let's move on to number seven, which is perhaps one of the single most costly, and potentially even one of the most common, retirement mistakes that people make with IRAs and 401(k)s. This mistake is what I call 'ignoring the I.' You're probably thinking, "Okay, what does he mean by the I?" Well, to explain this a little more thoroughly, we're looking at the common investment equations. Now, you may have learned this concept many, many years ago when you first started investing, and the equation is TR = I + G. This stands for the total return equals income plus growth. Income is in the form of interest in dividends, while growth is in the form of capital appreciation. When you're younger and you're in your accumulation years, you don't care how you make money on your investments; you want to get total return. If it comes from interest in dividends, fine. If it comes from growth, fine. As a young investor, you really don't care. You just want to maximize the total return.

However, when you're retired, the whole game plan changes. Why? Because you realize that you can't spend growth. You can only spend interest and dividends that are paid out to you. Think about it. Your home is probably worth more now than it was in the middle of the financial crisis in 2008 and 2009, but that doesn't really do you any good because you can't spend the money that's tied up in your home. However, if you had a rental property that paid you a rental income, that would be an 'I'; that's income, something you can spend. So, all of a sudden, your priority goes from maximizing total returns with total disregard for whether it's through the 'G' or the 'I' to suddenly maximizing your 'I' income.

Sadly, the most common mistake I see people making here is not making this transition from total returns to an 'I' focus in a timely fashion.

When should you start making this transition to focus on the 'I'? Ideally, approximately ten years before your retirement. I have a very good friend who is one of our retirement income store affiliates, who says, "If you want retirement to be stress-free, invest for the I and not the G." That's my good friend, Pat Peason.

What mistakes do we see people making? Looking back over the last couple of decades, there's a popular rule called the 4% Cashflow Rule, which basically said, "You can rely on the G." You can engineer 'I' by converting the 'G' to 'I' through income. This concept effectively said that if you had $1 million, you should be able to take $40,000 a year for life and not run out of money. But the question becomes. what if you retired in the year 2000 and you relied on the 'G'? Well, let's take a look.

The Standard & Poor's 500 is kind of the broadest index for the stock market, the S&P 500 companies. Over the first 20 years of the century, it averaged around 6% per year. So, you might be thinking, "I'm going to be okay. If I'm making six and only using four, that's all right." Well, not so fast. The following chart shows how, if you were to engineer income through this withdrawal method, what the implications would be. You start on the upper left-hand corner in January of 2000 with a million dollars. If you look under the yellow column, you withdraw $40,000 a year every year for the rest of your life. But now, if you look on the right-hand column, at the lower right-hand corner, you see that 13 years later, by the end of 2012, you only have about $500,000 back.

At this point in time, you can go to your doctor, and your doctor might say, "Congratulations, gosh, you're 78 years old. You're in better health today than you were when you retired 13 years ago! I don't know what you're doing, but God bless you for doing it so well. Just keep doing what you're doing because you're doing something right."

However, now you have to face the painful realization that you might live 15 or 20 more years, and you could possibly run out of money.

So, why did this happen? Well, it happened because we had two market drops between 2000 and 2008. The first lasted seven years when the tech bubble burst and the market dropped and came

back, and the second one was six years long during the financial crisis when the market dropped and came back. That's 13 years when the market was underwater. But is this the only time it's ever happened? Absolutely not. If you look at this graph, you'll see the numerals one, two, and three represent three other times in the 20th century when this happened. 20 years after the beginning of the century, then 25 years during The Great Depression, and then about 17 years from the late '60s to early '80s, all longer than the 13 year period we've just witnessed.

So what's the solution? Well, the solution is, instead of using the withdrawal method and engineering income, just spend the dividends using the income method. The problem is that dividends for the S&P 500 were only about one-and-a-half percent. So that means if you had a million dollars, upper left-hand corner at the beginning of 2000 and under the yellow column, the one-half-percent dividend column, you withdrew just the dividends at $15,000 a year. If you go to the lower right-hand corner, you'd see that 13 years later, at the end of 2012, you would have almost had your million dollars back because the market had almost recovered within 13 years. The problem, though, is you worked so hard to save a million dollars, and now you can only spend $15,000 a year. But what if you earned 4% from the 'I' instead of one-and-a-half percent? This is something you can do in the stock market by focusing on higher dividend stocks, or it's something you can do outside the stock market if you want to get more conservative with your investments.

Let's take a quick peek at how it would look in the stock market. Let's say that you earned a 4% dividend through high dividend-paying stocks, and you took $40,000 a year out, as you see under that 4% column. Now at the end of 13 years, by the end of 2012, guess what? You would have had almost your whole million dollars back. Why? Because you lived off the dividend; you lived off the 'I' and didn't touch the principal. So, hopefully, if you've got nothing else so far on this program, you'll now at least understand why the most costly mistake retirees can make is not performing that important transition. Moving from being total return focused to being 'I' focused starting about 10 years outside of retirement is integral to long-term financial security.

Okay. Moving on, let's go to number eight. The eighth most common mistake is not moving 401(k)s, 403(b)s, TSPs, etc., to IRAs with more flexibility. Let's take a moment to think about why you

participated in these company-sponsored plans, to begin with? One of the first reasons is likely because your employer matches the funds; it's essentially free money. And, even if the employer is not matching, you still got free money because these were pre-tax contributions, so the government essentially matched your dollars. But when the contributions stop, the free money ends; that's why many say that's the time to get your money out of the plan. So, what should you do when you retire with 401(k)s and 403(b)s? Well, you can go left and leave it in the plane, or you can go right, and roll it over to an IRA.

If you leave the money in the plan, you have guidelines that restrict your access to the money. Investment options are limited. You have limited flexibility on distributions and so do your children and grandchildren if they're your beneficiaries. Most 401(k) and 403(b)s do not offer Roth conversion options. And, if you leave your money in the plan, you don't have a lot of good options designed to help you go from a total return basis to an 'I' basis focused on income. In most cases, you're stuck with market risk, which may be good or bad, but it limits your choices. Lastly, the fees we talked about can often be over 2% per year.

As an alternative, you can roll the plan over to an IRA. By rolling it to an IRA, you avoid the 20% mandatory withholding, your money continues to grow tax-deferred, and you control where your money's invested. So, if you want to make that transition from being total return-based to income-based, you can do so with that universe of options.

You can also utilize a Roth IRA conversion if you'd like. You can lower your market risk if that's part of your goal. Finally, you can reduce any annual fees that you have to pay. And if you're still working, you may, depending upon your employer, have an opportunity to roll your 401(k) over if you're over the age of 59-and-a-half. Again, this is because most of these plans offer only mutual funds and people want to better diversify as they get closer to retirement. In service rollovers, two IRAs can help you go from being total return-based to income-based and protect your principal from market downturns, if that's part of your goal. Also, you can still contribute to the 401(k). Just because you've done this in-service transfer to an IRA doesn't mean you can't continue to contribute and get your employer matching. And, if you're laid-off or you change employers, you may be able to move the

401(k) even if you're younger than age 59-and-a-half. The bottom line is that 401(k) planning and 403(b) planning helps you eliminate costly mistakes for you and your family.

Now, let's transition onto mistake number nine. When you're younger, you don't mind complicating your life. You want to buy a house, and then you want to buy a bigger house. Maybe you get to a point where you also want to buy a second home. But, with time, you get to an age where you want to downsize and simplify, and that's why mistake number nine can be having too many retirement accounts. In many ways, this creates a retirement mess because you've accumulated different accounts in different areas, maybe even with the help of different advisors over the course of your lifetime. However, when you get to a certain point in your life and you realize it's time to consolidate.

Last but not least, mistake number 10 is not exploring your options and possibilities. Essentially, not getting a second opinion. Think about your health. If you were told you needed open-heart surgery, you'd probably go for a second opinion because it's your health, right? Well, the question becomes, why wouldn't you do the same for your wealth? Getting a second opinion, not just from a run-of-the-mill financial advisor but from an IRA and 401(k) specialist, can save your family an absolute fortune.

Now that you've reached the end of the presentation, you're eligible to receive our special offer. And again, that is a customized IRA and 401(k) analysis, and I am going to throw in a free copy of my book, The Retirement Income Stor-E. **(This section can be replaced with copy that refers to your book if you have published one.)** In order to get both of those at no cost, there's a catch; you need to have to schedule the delivery of this tonight, keep the appointment, and not change the time.

In a moment, you're going to see my calendar pop up on the screen, where you'll have an opportunity to schedule the delivery of your customized IRA and 401(k) analysis. So now, while you're working on scheduling the delivery of that IRA or 401(k) analysis, let's take some questions that came in during tonight's event.

Karen says, "*I'm in my late sixties, and I'm already retired. Is it too late to switch to the I to income at this stage?"* Well, depending upon how you've invested, the answer may be yes or no. I think you're not too late, and here's why. Right now, the financial markets have been pretty strong, and chances are your investment accounts have gone up in value. Therefore, you could still make a transition from the 'G' to

the 'I' or from total returns to the 'I.' However, if we had a major market drop, then that would be the time I would say it could be too late. But, given where things are right now in the financial markets, I think you still have time to make this all-important transition. So, Karen, thank you.

Eddie says, *"I'm worried the Biden administration will raise taxes in the future. I plan to retire in two years. Should I do a Roth conversion now for my IRA retirement account, or should I wait? What other accounts should I consider?* Well, the question whether you convert to a Roth at any time or in the future really depends upon tax brackets. Now, you might be in a higher tax bracket when you retire, so doing it now might make sense. But what I find is most of the time, you have a little bit more wiggle room in what tax bracket you're in once you actually retire. My guess would be, and this is something that you can determine during your complimentary IRA and 401(k) analysis, but my best guess would be that waiting to retirement would give you the ability to be in a lower bracket for a period of time. This is especially likely if you're not retiring and taking required minimum distributions immediately, or you don't have to take your Social Security immediately because you'll be younger than the age of 70. Those things should give you the ability to do some Roth conversions in a lower bracket. But again, without knowing your personal situation, it's really difficult for me to give you a solid answer, and that's part of the reason that you're signing up for this personalized IRA and 401(k) analysis.

Sherly asks, "*I've got a 401(k), I've tried a 403(b), and I'm trying to retire in around three to five years. When should I transfer it to an IRA?"* Well, generally speaking, the answer is as soon as you can. If you're over 59-and-a-half and you're a teacher with a 403(b), that's considered a triggering event now, and you can move that to an IRA. If you're not 59-and-a-half, you typically are stuck with whatever 403(b) options you have. If you work in a hospital, it depends upon the plan documents. Some will allow you to do in-service transfers to an IRA once you're 59-and-a-half, and some will make you wait until retirement. So Sherly, the bottom line is that you will want to find out which category you fall into. If you're a teacher, it's really easy, and you should make that transition as soon as you can. It's only a few years away, and time flies. You might be surprised by how it creeps up on you.

Benjamin, you said*, "I want to keep some money in the stock market even after I retire. How can I invest for income, how can I do it in the stock market, and when do I make the switch to investing for*

income?" Well, Benjamin, I would say that the best time is close to retirement. In fact, it should be ten years before retirement. As for staying in the stock market and making the transition from the 'G' to 'I,' it's actually quite simple. All you really need to do is focus on high dividend-paying stocks. It's simple, but it's not easy, and here's why. Most people believe that investing in high dividends is much easier than investing in high-growth stocks, but the reality is that the opposite is true. See, when you invest for growth in the stock market, you're investing with momentum. That could be as simple as taking some technology stocks that happened to be on a good uptrend, buying them, and keeping an eye on them, then selling them if that uptrend reverses and turns into a downtrend. It could be as easy as simply putting on stop-losses and automatic orders to sell when it drops below a certain price.

But investing for dividends is much, much more difficult. Why? Well, essentially, what you're doing is you're buying mature companies that can either be at the beginning stage of their life cycle or at the ending stage or the mature part of their life cycle. If they're at the beginning, great, you can get some good dividends and even some capital appreciation for a while. If they're at the final stages, the price might start to come down, and the company may start to cut dividends. Obviously, if you're retired, you definitely don't want to do that. So, that's why I always talk about making sure that you work with an Income Specialist if you're planning to stay in the stock market and you're planning to focus on dividend-oriented strategies. Investing for dividends in the stock market can actually be much more difficult than investing for growth or for momentum.

That's all we have time for tonight, everybody, so thank you for your questions. I know there were a couple I didn't get to, and I'm sorry about that, but after the delivery of your custom IRA and 401(k) analysis, you'll be able to get those questions answered. I wanted to go through and pick some of the questions I thought would apply to the majority of the people watching this evening. I don't know about you, but I haven't had dinner yet, so let's call it a wrap. It's been a pleasure talking with you, and I thank you for your complete and undivided attention this evening. Thank you.