BOWEN
FINANCIAL GROUP

PENSION & 401(K) DECISION GUIDE:

TOP 5 **MOST EXPENSIVE** MISTAKES

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RETIREE,

Congratulations! You have an exciting future ahead just waiting for you to make long-lasting memories with your loved ones. Retirement should be filled with the most fun you've ever had, but often that requires money! Income always has and always will be the #1 most important financial need we have. That's why experiencing a job loss during your accumulation years can be scary. As you enter the preservation and distribution phases of retirement, the only difference now is your employer is not paying you — you are paying yourself! In fact, many pre-retirees' top financial fear is running out of money.

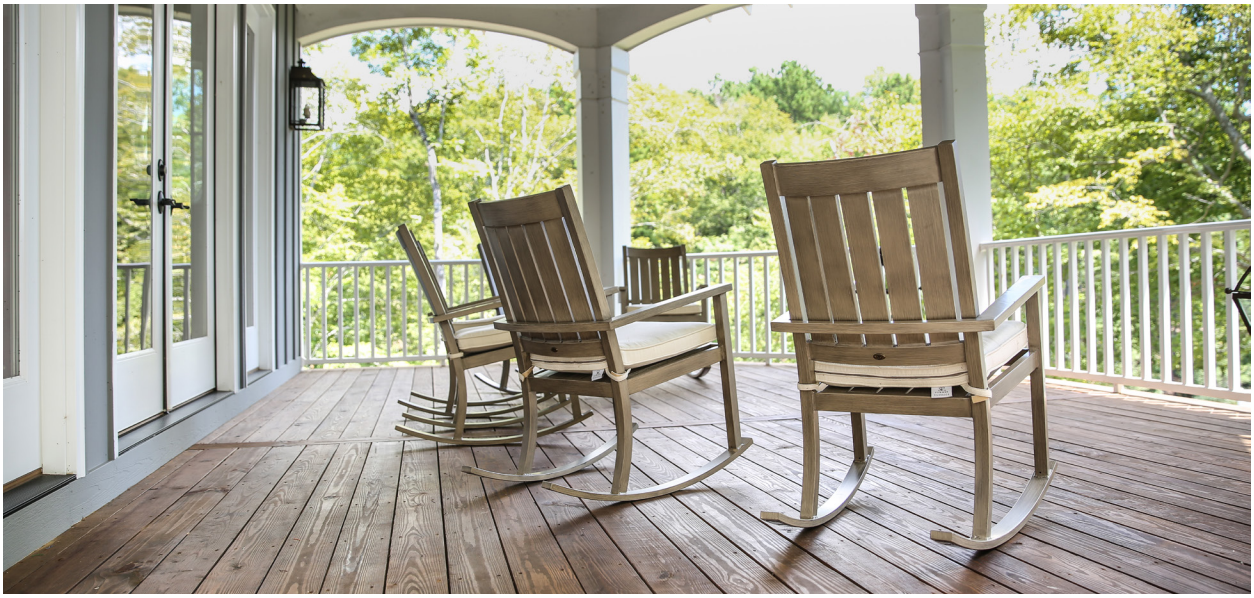
The critical decisions you make right now will determine your financial independence for the rest of your life. Thankfully, you're doing the right thing and investigating all of your options.

To help with your complex decision, we wanted to share our Top 5 Most Expensive Retirement Mistakes — so that you know your options and can make the decision that's best for you and your loved ones. It would be wise to talk to a financial professional about your retirement goals and which financial strategies may help you get there.

Without further ado, let's get started.

MISTAKE #1

GETTING LURED IN BY THE HIGHEST MONTHLY PENSION PAYCHECK



If you're lucky enough to have a pension decision to make, that's great! Pensions are very rare these days, and you've likely worked for that company for a long time. These are designed to create retirement income, so we simply need to think through the pros and cons of each option. All plans are different, but generally you can choose the lump sum option or annuitize the entire balance in exchange for a paycheck. Be very careful about annuitizing your money by selecting the monthly paycheck, because you lose all liquidity with no more access to that balance. Moreover, that paycheck might stop at the end of 10 or 20 years depending on your election — just when you need it the most.

When considering the various monthly income amounts, you'll notice the single life option might be the most enticing. The reason that amount is the highest is because it is the riskiest decision you can elect. With this election, the paycheck only continues as long as you are alive. If you only live five more years for some reason, they only had to pay out a minimal amount of money and they keep the rest! This could be the costliest mistake we will discuss.

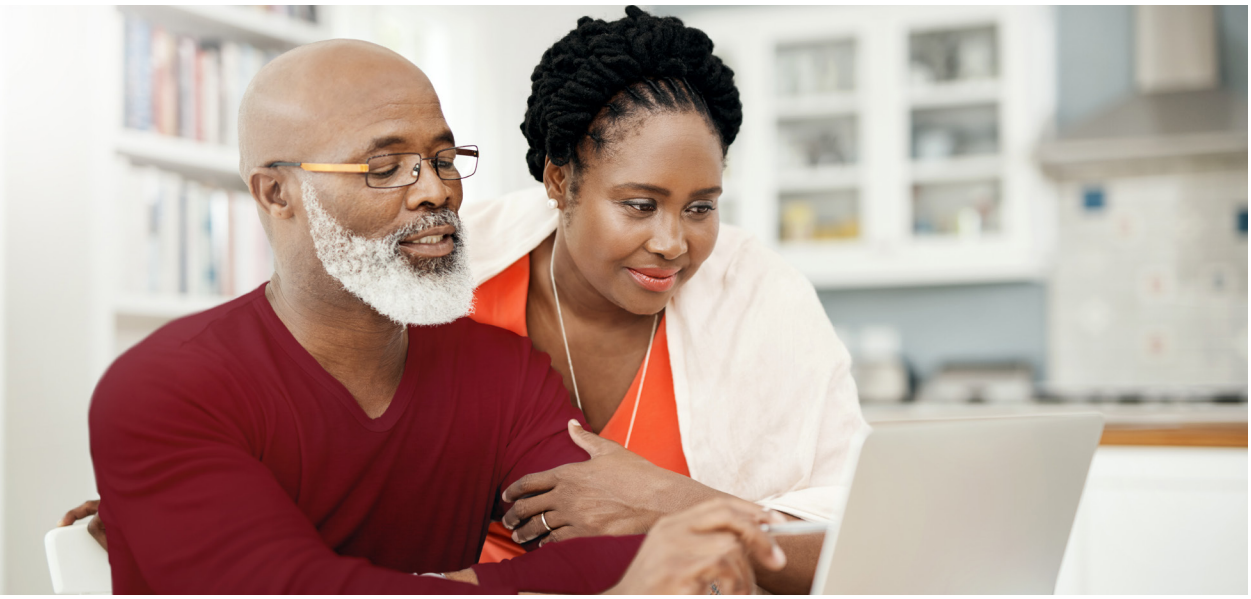
Imagine you were in the market for a new car to celebrate retirement. You wouldn't want to make a final decision after only going to one dealership. Although there might be several models to choose from at that dealership, you are still only looking at vehicles from that maker. Wouldn't you want to continue looking to make sure you don't see something better? The same is true regarding the limited options and first offer concerning your pension.

Understand those immediate annuities offered by your employer are often proprietary products, which might or might not be the most competitive in the current marketplace. It is imperative to shop around so you can make educated and informed decisions about your investment strategies. An increasingly popular option to consider is with the newest, no-fee, principal-protected solutions where you maintain control of your lump sum and also have the potential of increasing income for the rest of your life. Bottom line, review all your options in pursuing the highest income but where you also maintain access to your money.

Buyer Beware: Variable Annuities! Variable annuities have extremely high fees averaging 3% or more every year! Your hard-earned money is completely exposed to market volatility and can greatly decline in value. Lastly, the income payout percentages are often very low. Thankfully, not all annuities are bad. You just have to be careful.

MISTAKE #2

NOT REDUCING YOUR FEES



In life, you get what you pay for. If something is free, we usually don't expect high quality. That's why most people don't have a problem paying a fee for money management, specifically when someone is bringing value. But that brings us to two very important questions.

1) Do you know how much you are paying in fees and expenses?

2) Are they bringing value with minimal volatility?

Did you know that 401(k) plans are some of the costliest savings vehicles out there? CNBC released a recent study stating company 401(k)s' fees and expenses range from 0.5% to 5% annually! They know you are a captive audience while working there and, in most cases, you cannot move your money until you either retire, separate, or turn 59.5 years old.

As you analyze all of your investment goals for retirement, like safety, income, growth, and liquidity, you should also reduce your fees because it's not that hard to be defensive. Think about it — if you are paying a 1.5% advisory fee and they have you invested in a simple bond fund that averages only 1% per year, they are actually

costing you money! You can accomplish this on your own with numerous low-risk investments like CDs, bonds, and fixed indexed annuities, all of which have very low or no fees. The choice is yours.

MISTAKE #3

MISTAKING GROWTH AS YOUR #1 GOAL

Up to this point, you have been in the accumulation phase of investing, most likely pursuing volatility in the hopes of growing your money. When the markets crashed in the past, it was not a big deal and hopefully you were able to put even more money in while everything was "on sale."

Now as you enter the preservation and distribution stage of retirement, your greatest financial fear might be running out of money. To address that concern, you might think that you have to continue risking most of your money so you don't run out down the road.

However, that logic is exactly what could cause you to run out because you haven't factored the sequence of return risk while taking withdrawals. Even if you averaged a 6% rate of return in the past, we don't generally make a steady 6% each year. The most catastrophic reality that could happen once you finally stop working is a major

market crash within the first five years of retirement! Your portfolio balance could be down 30%-50%, but you still need income and will be forced to sell low every year, preventing any recovery.

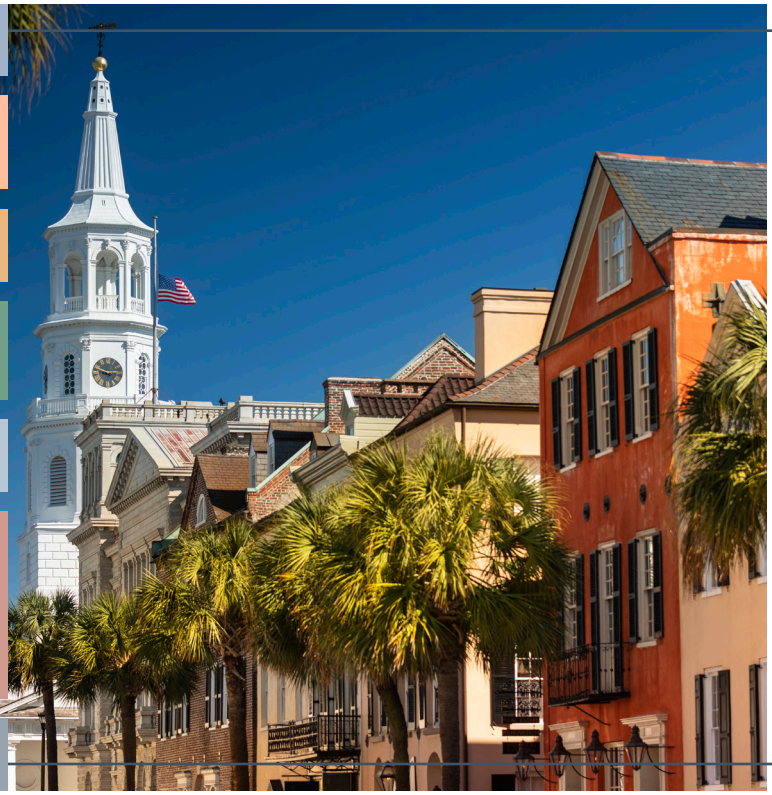
A minor example just took place in March 2020 with the panicked selloff during the COVID-19 pandemic. Luckily, the markets rallied quickly due to government intervention, but what about the next one that lasts for five years, like the 2008 financial crisis? Market losses will hurt you exponentially more during the withdrawal phase when compared to a previous buy-and-hold accumulation phase. We have to protect your downside risk. Please take note, the account you will be drawing income from during retirement must be defensively invested with little or no risk. You don't have to pursue big market-like returns when you never take big steps backward.

In today's low interest rate environment, it's getting harder for baby boomers to make much of a return. Look to potentially average 3%-5% with no fees and that should help you fight the silent killer of inflation.

MISTAKE #4

HAVING THE SAME RISK PROFILE ACROSS ALL TAX STATUSES

As you probably know, there are three types of tax statuses: tax-deferred, taxable, and tax-free. Your pension lump sum and 401(k) are tax-deferred because none of that money has been taxed. Some employers allow after-tax contributions inside a Roth 401(k) or other non-qualified accounts. It is extremely important to consult your CPA or tax advisor when considering rollovers, distributions, and conversions, but you shouldn't be scared of them. When properly set up, you can efficiently execute your tax and estate plan.



Once you have decided how much risk you're comfortable taking in retirement, you can now allocate your money in the appropriate accounts. Let's talk about a hypothetical situation. Assume you only want 40% of your life savings at risk and 60% should stay defensive. Next, let's say you have $1 million of tax-deferred savings, $500,000 in a non-qualified brokerage account, and $100,000 in a tax-free Roth IRA. All too often we see retirees balanced 40/60 across all three accounts.

Although this is not the end of the world, it does convey the retiree doesn't understand the tax benefits available to them. Think about it. If there are accounts where your growth is 100% tax-free, why would you have any low growth positions in those accounts? We mistakenly see retirees pursuing growth in an account where the gains are 100% taxed as ordinary income. This seemingly small correction can quickly compound in your favor. After all, it's what you keep that counts and you have to remember how the tax game is played.

Speaking of taxes, we believe tax brackets across the board will be going back up in the near future due to our government's stimulus plans, national debt, and social programs like Social Security and Medicare. We are simply not bringing in enough tax revenue, and political winds can change quickly in Washington, D.C. Time is precious, and we must start executing a tax plan immediately while we still have the opportunity.

MISTAKE #5

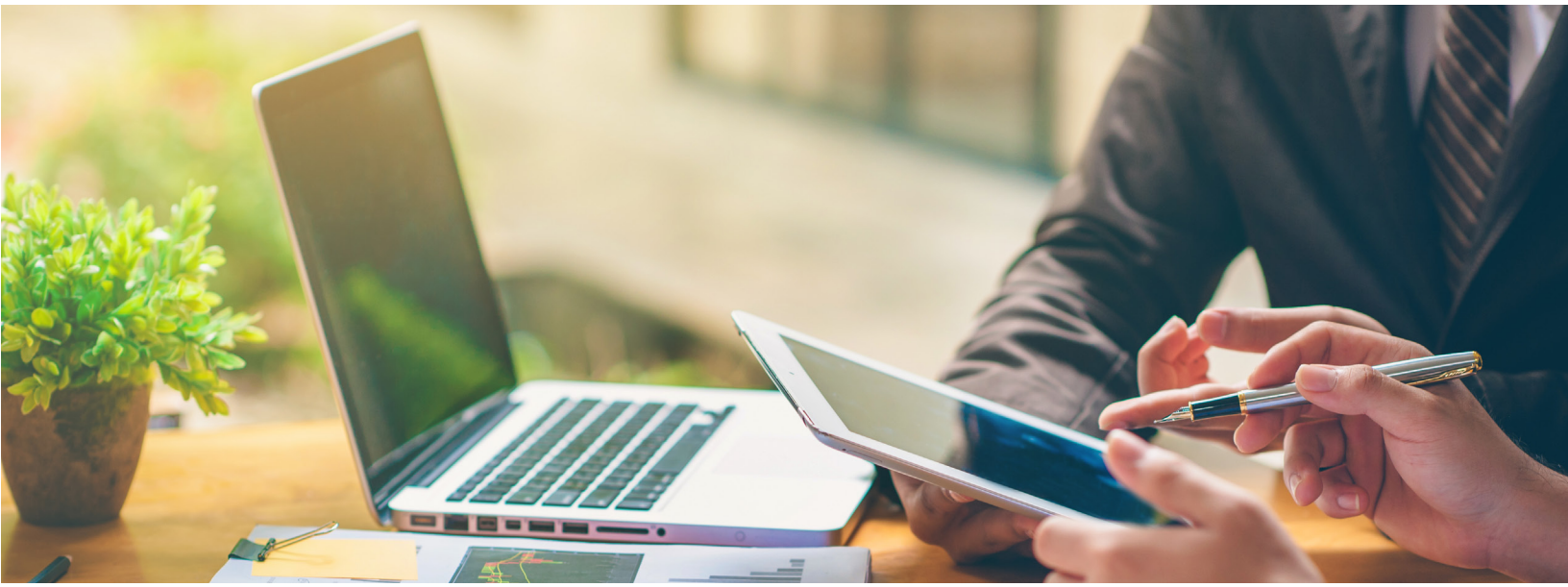
NOT HAVING A DETAILED, WRITTEN RETIREMENT PLAN

You've grown your money over 40-plus years by working extremely hard, taking risk during the bull and bear markets. Needless to say you can't go back and do that again. Now, you're about to be fully responsible for your household's lifetime income, so you can't afford any mistakes. To accomplish this, it will require a shift in your investment strategy.

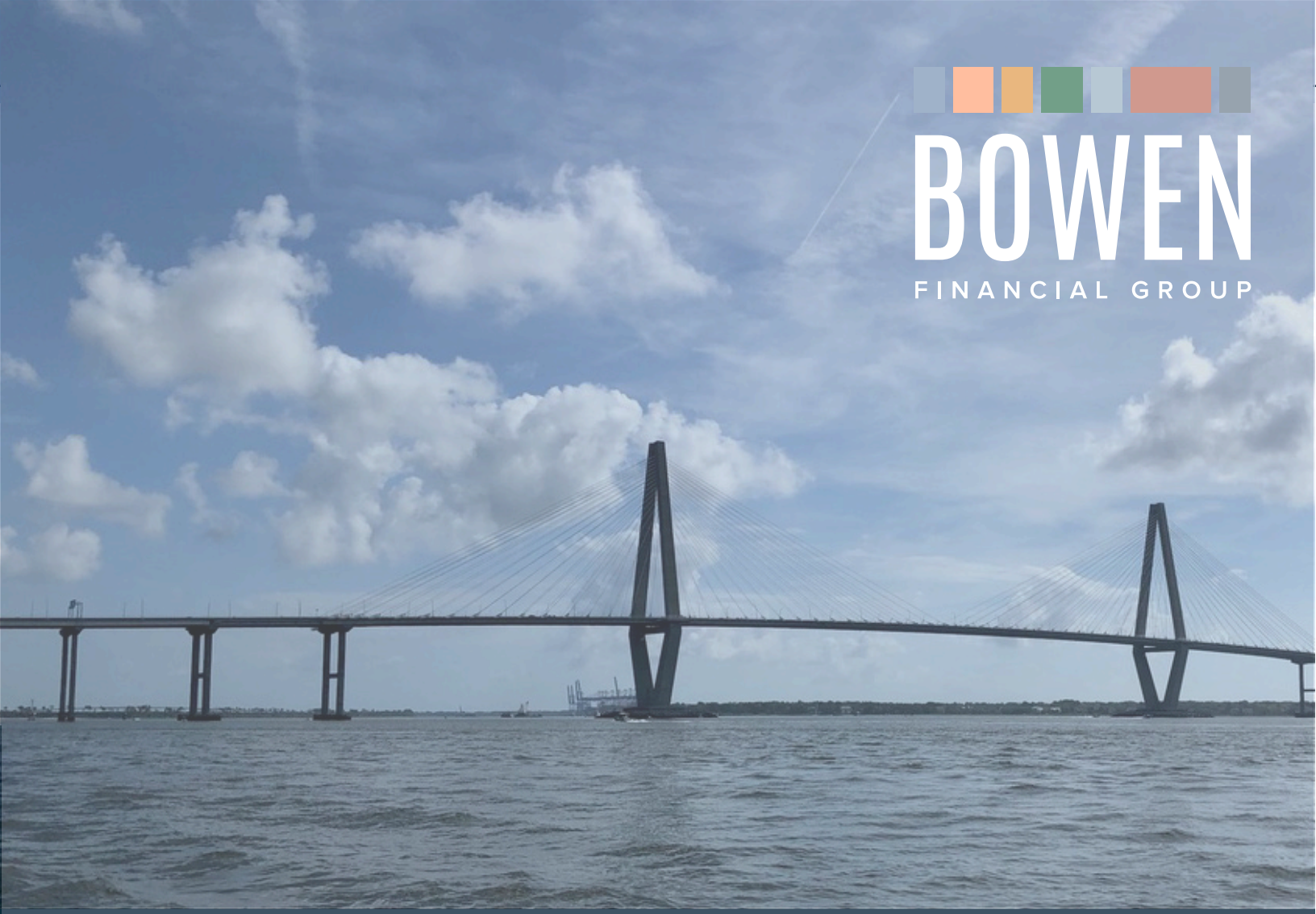
Warren Buffett said it best: "Why risk what you have in hopes of achieving something you don't need?" If you're honest, we bet you would admit that you are tired of the stress and pressures that money can bring. We are all seeking peace of mind and confidence in terms of our money. That reality is completely achievable, but it all starts with a plan.

Think about your health for a moment. You have a general physician who has done fine up to this point, but what if you start to have debilitating back pain? This is when you get referred to a spinal specialist, right? They have all the right diagnostic equipment and training to discover and treat your problems.

The same is true in the financial world. In this guide, we've outlined several general mistakes to avoid, but you still owe it to your loved ones to get a second opinion. That second opinion should be completed by a retirement planner who focuses on the strategies and solutions facing today's baby boomer. Make sure this financial advisor is a fiduciary, which means they must legally act in your best interest. Watch out for salesmen just looking to push products. Can they help you invest in the market with low-cost exchange-traded funds (ETFs) at Fidelity, TD Ameritrade, or Vanguard? Can they also bring value with principal-protected solutions so you can retire the risk? Look for a coach with the heart of a teacher, not a pushy salesman.



Once you have found them, get started on a detailed, written retirement plan. It's so important that this plan be written out or in a software program so you both can revisit it as often as needed. The only thing constant in our life is change. Our health, our life, and our goals can change. If you have a relationship with a trusted financial advisor, they will be your rock when everything else feels out of control. We need that stability when our emotions are running high due to market losses or the loss of a loved one. Most breadwinners overlook the importance of having a great relationship with a trusted financial advisor, since they usually handle all the finances. Widows are very vulnerable, and they need the support and guidance an advisor can provide.



At Bowen Financial Group, we'd love to continue this conversation with you and prove our value by putting together a full-blown second opinion before you make these pivotal decisions. Let's start with a quick 15-minute conversation to see if we are a good fit and learn how we can serve you further.

Believe in better!

CALL BOWEN FINANCIAL GROUP at **843-203-2030**
TO SET UP A COMPLIMENTARY CONSULTATION.