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FINANCIAL GROUP

PENSIONS:
TOP 5 MOST EXPENSIVE MISTAKES

MISTAKE #1

BEING HANDCUFFED TO PROPRIETARY PROVIDERS

What is a proprietary product?

Webster's Dictionary defines proprietary as one that possesses, owns, or holds exclusive right to something; something that is used, produced, or marketed under exclusive legal right of the inventor or maker.
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 makes to choose from at that dealership, wouldn't you want to continue looking to see if you like something better? The same is true regarding the limited options and first offer concerning your pension.

How is that significant to your finances?

You can find a proprietary product at a financial services firm that makes its own investment products. It may be a mistake to invest in them because the investment also serves as a profit center for the firm. They charge you money to be in it (just like any other company would do).

If you need to invest and are at a proprietary firm, do you think they are going to sell you a different type of investment (where someone else makes the lion's share of the profits)? Or do you think they'll try to sell you something where they get paid a commission or a management fee? It's important to understand the structure of these products so you can make educated and informed decisions about your investment strategies.

MISTAKE #2

NOT HAVING A STRATEGIC INVESTING PLAN

We're not talking about a retirement plan that says, "If you max out your 401(k) for 20 years and get 8% a year on your money, you can retire." We're talking about knowing what you own and why you own it. We're talking about not investing in anything until you know how it is going to fit into your strategic plan for financial independence.

You should consider when to invest in something, at what price you should invest, how much to invest, how long to invest in it for, and most importantly — when to get out.

Let's talk about that Voluntary Investment Plan (VIP) — what are your choices? Take it, leave it, move it, or roll it.

TAKE IT

You can take the money and run, which will trigger a mandatory 20% federal income tax withholding, and you'll have 60 days to put that money back into another qualified plan. However, if not done correctly, you may still incur a SUBSTANTIAL income tax liability. You may also incur early withdrawal penalties.

LEAVE IT

You can leave the money in your VIP, resulting in potentially HIGHER investment costs, limited choices, and possible tax consequences for your estate, if you pass away while the money is still in your VIP.

MOVE IT

You can move the money to another VIP if your new employer allows. However, the same rules from above apply because the money is still in a VIP account. It's important to weigh your options so you don't incur fees or additional taxes for your estate if you pass away while the money is still in your VIP.

ROLL IT

You can exercise a direct rollover to your IRA, which is often the best choice. While a VIP is an excellent accumulation vehicle, an IRA is an excellent accumulation AND distribution vehicle. By design, IRAs offer more versatility than VIPs. They are highly customizable in the areas of investment options and beneficiary strategies, and they offer favorable tax treatment. Take advantage of the additional options in an IRA by working directly with a seasoned financial professional.

MISTAKE #3

PENSION FUND IS NO LONGER AVAILABLE WHEN YOU'RE ELIGIBLE TO COLLECT

Your pension plan could possibly be insured by the Pension Benefit Guaranty Corporation (PBGC). The PBGC can reinforce an individual's pension within certain limitations, including a person's age, time of service, etc., in the event a pension plan goes under. But it's important to note that not all pensions are covered by PBGC. This is not something you want to find out the hard way.

If there is no question as to whether your pension is adequately covered by the PBGC or your company itself can fulfill the full benefits of your plan, then this is a non-issue. However, if there is a question or doubt in this area, then considering a buyout is much more serious. Otherwise, this could be the most expensive mistake you could make.

Private sector pension plans always carry risk. Ask yourself: Is the company that manages your pension in the market of funding and addressing longevity? We have seen companies in the United States underfund their pension plans.

MISTAKE #4

NOT TAKING THE MONTHLY PENSION OPTION

If you plan on retiring within the next 12 months and you need additional income, not taking the monthly pension benefit could be a costly mistake. In our experience, it can be hard to beat an existing plan if this is your situation.

Let's give a hypothetical example. John has worked for his employer for 30-plus years, is 68 years old, and is planning on retiring at the end of this year. His wife is 63 years old and plans on working for another five years at least. He just had his prostate removed because it was cancerous.

His single-life option is $2,380 per month, but taking this option would offer too much risk because he has cancer and is five years older than his wife. An existing pension

maximization plan isn't a good option either because he is uninsurable. His lump-sum payout is $220,000.

What can he do? The 100% joint survivorship benefit is $1,870 per month, or $22,440 per year. In his case, he is getting almost a 10% guaranteed annual return compared to the lump sum because he needs to take the income right away. The safest and smartest option for him is to choose the 100% joint payout option because of his health, the age difference between him and his wife, and the fact that he needs the pension income when he retires.

MISTAKE #5

TAKING THE JOINT PENSION PAYOUT

Did you know that you might be able to get more income now by taking the single-life payout and more income in retirement TAX-FREE (if you qualify) for your spouse when you pass away?

Let's talk about another hypothetical situation. Eric is 56 years old and his wife, Janet, is 54. He has worked for his employer for 35 years and is planning on retiring early next year.

His lump-sum option is $244,198. His single-life option is $3,642 per month and joint survivor 100% is $3,057 per month. Because Eric is taking income within the next year and he is young for a retiree, we cannot generate over $3,057 per month on a lump-sum payout. At first glance, you might look and think we need to do the joint payout, but do we?

The difference between single-life and joint is $585 per month. Eric is healthy enough to get preferred rates on a $500,000 universal life insurance policy that has a no-lapse rider to age 120 for $554 per month! So, Eric can net an extra $31 per month by taking single-life payout and, if designed properly, can generate $500,000 of TAX-FREE dollars for his wife when he passes away.

If his wife passes away and he doesn't need the life insurance, he can still keep the policy and use long-term care benefits (for an additional fee) for himself.

Approximately $100,000 per year of tax-free LTC benefits (for up to four years, if he needed it) could be used, and he would still have a residual death benefit! Or he could pass the entire $500,000 to his children. If he wanted to pass on less to his wife, he could do a life policy for $400,000, which would cost him about $444 per month and allow him to pocket an extra $141 per month.

The longer Eric lives, the better this gets for his wife. As she gets older, she won't need the income for as long, which would help generate legacy planning dollars for their children. Without life insurance, choosing the joint payout option stops income with the death of the second person and a single payout stops income with the death of the employee.

Hypothetical Example

STICKING IT OUT

I want to talk to you about Joe and Sue.

Joe is an employee with 40-plus years with the same company. His wife, Suzanne, recently retired and is collecting a pension, plus her Social Security.

Joe is planning on working at least two more years, and his health isn't very good. He has diabetes and kidney problems. His wife also has a heart condition. He can't buy any life insurance because he and his wife are uninsurable. He doesn't want to pass away in a couple of years and have his 40-year pension benefit roll back into the company if something happens to his wife as well.

The only benefit he would consider with his company plan is the joint payout at 100% because of his and his wife's health.

The joint payout at 100% is $4,650 per month or $55,800 per year. That sounds like a pretty good deal, right?

Wrong! He has the option to take a lump-sum distribution of $525,000. If we do the math, the joint payout option will take 9.4 years just to get his money back, and that's assuming he doesn't spend a dime of that income for those 9.4 years!

With the other option, he is guaranteed to never lose money if the market goes down! Plus, over the next 10 years, he could expect his $525,000 to potentially grow to over $1 million!

This doesn't take into consideration the taxes he will save on his pension, which can be as much as 40% while he is working. Additionally, he won't have to pay the increased rate on all of his other income that the additional $55,000 would cause. Not only can he take the income when he needs it, but he also has the opportunity for inflation protection.

In sum, taking your pension as a monthly payout, if you plan to continue to work, could potentially cost you hundreds of thousands of dollars! You could be paying 40%–50% of your pension back to the government in taxes while you continue to work.

Making decisions on your pension can have a tremendous impact on the success or failure of your retirement plan. You owe it to yourself and your family to have a customized written strategy that focuses on income, investments, taxes, and your estate. If you have made any of these mistakes, fear that you may in the future, or just want a second pair of eyes on your plan for a successful financial future, feel free to call

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