SPECIAL **FREE** REPORT

THE *SHOCKING* TRUTH ABOUT 401Ks

The SHOCKING **TRUTH** about 401(k)s

The term 401(k) has become synonymous with "saving for retirement." After all, over 73 million Americans contribute to their employer-sponsored 401(k) plans each year. The total amount of funds currently held in 401(k) accounts is in excess of $5 Trillion, with that number growing each day. Unfortunately, however, most Americans don't truly understand how a 401(k) plan works, or the risks involved in such plans.

HISTORY:

The section of the Internal Revenue Code that made 401(k) plans possible was enacted into law in 1978. The initial intention of the code was to allow company executives with excess income to take a tax break on their contributions. While employers were increasingly pulling back on traditional pensions, lawmakers were attempting to define a method whereby employees would be encouraged to begin saving for themselves.

What transpired however, was a dangerous shift from conservatively managed company pensions to complicated investments that must be managed by everyday people, most of whom possess little to no experience managing a financial portfolio. This created a situation where companies no longer had to bear the responsibility of prudent investments for their employees. Instead, no one but the employee was now responsible for his or her investment decisions. You see, unlike other defined benefit ERISA plans or banking institution savings accounts, there is no government insurance for assets held in 401(k) accounts.

Corporations instantly fell in love with 401(k)s because the matching contributions they provided were much less costly than traditional company pension plan contributions, and the accountability for managing pension assets was now transferred to the employee level.

During the 1980s, this 401(k) explosion created an enormous source of funds for Wall Street and the mutual fund industry. Overnight, millions of Americans had their retirement nest eggs completely dependent on the market. Big fund managers such as Fidelity, Vanguard, and Charles Schwab made it increasingly easy for individuals to sign a few forms, and instantly create their own self-managed accounts. These accounts boosted investments on Wall Street, while the average investor bore all of the risk and paid exorbitant, well-hidden fees for such a privilege.

TIMELINE OF IMPORTANT 401(k) MILESTONES:

1978: Congress passes the Revenue Act of 1978, which includes a provision that allows employees to avoid being taxed on a portion of income that they decide to receive as deferred compensation, rather than direct pay. The provision becomes Internal Revenue Code Sec. 401(k).

1981: The IRS issues rules allowing the funding of 401(k) plans through employee salary reductions.

1982: Several companies—such as Johnson & Johnson, PepsiCo and Honeywell—begin to offer 401(k) plans to their employees. By 1983, nearly half of all large employers either offer a 401(k) plan or are considering offering one, according to the Employee Benefit Research Institute.

1984: The Tax Reform Act of 1984 requires "nondiscrimination" testing to prevent 401(k) plans from favoring highly compensated employees over rank-and-file workers. At the time, Congress was concerned that executives would take advantage of 401(k) plans more than lower-paid employees.

1996: Assets in 401(k) plans surpass $1 trillion, with more than 30 million participants.

2001: The Economic Growth and Tax Relief Reconciliation Act of 2001 provides for catch-up contributions for participants 50 and older (as of 2013, the max catch-up contribution is $5,500), as well as the creation of Roth 401(k)s, which let after-tax contributions grow tax-free.

2006: The Pension Protection Act of 2006 allows employers to automatically enroll employees in 401(k) plans, and offer target-date funds as a default option.

MY ISSUE WITH 401(k)s:

It is completely understood that the following information, the shocking truth about 401(k)s, may not be a popular subject. But after working in the financial industry for over 23 years, I've amassed enough real-life stories and experiences to share these truths with you, in hopes that you will learn from the mistakes of others. Many of my clients, including family members, have learned the hard way that 401(k)s are not the "holy grail" of retirement plans. They've come to me disillusioned and broken, never hearing the truths that I'm about to reveal to you.

The reality is this - Wall Street and the Media have conditioned consumers to believe that they must put their hard-earned money at risk in the 401(k) casino, in order to obtain competitive returns. Folks, nothing could be further from the truth!

PROBLEM #1 -

TAX BREAKS TODAY & TAXES IN THE FUTURE:

One of the fundamental, so-called "benefits" of participating in a 401(k) is the ability to take a tax break today on your contributions and postpone paying taxes into the future, when you retire. The government wants you to believe that you are in a higher tax bracket today (while you are working) than you will be in retirement. The truth is, you are bribed with the ability to write off your 401(k) deductions. In other words, every penny that you shove into your plan is tax-deductible and lowers your taxable income. Think of it this way: Uncle Sam encourages you to take a tax break on the "seed", knowing that you will have to pay taxes on the "full harvest" when you retire.

Let me explain why I believe that this idea of postponing taxation is a dangerous trap. While I don't have a crystal ball, it is simply common sense that leads me to the conclusion that taxes are much lower today than they will be in the future. Here are a few facts to back up my belief:

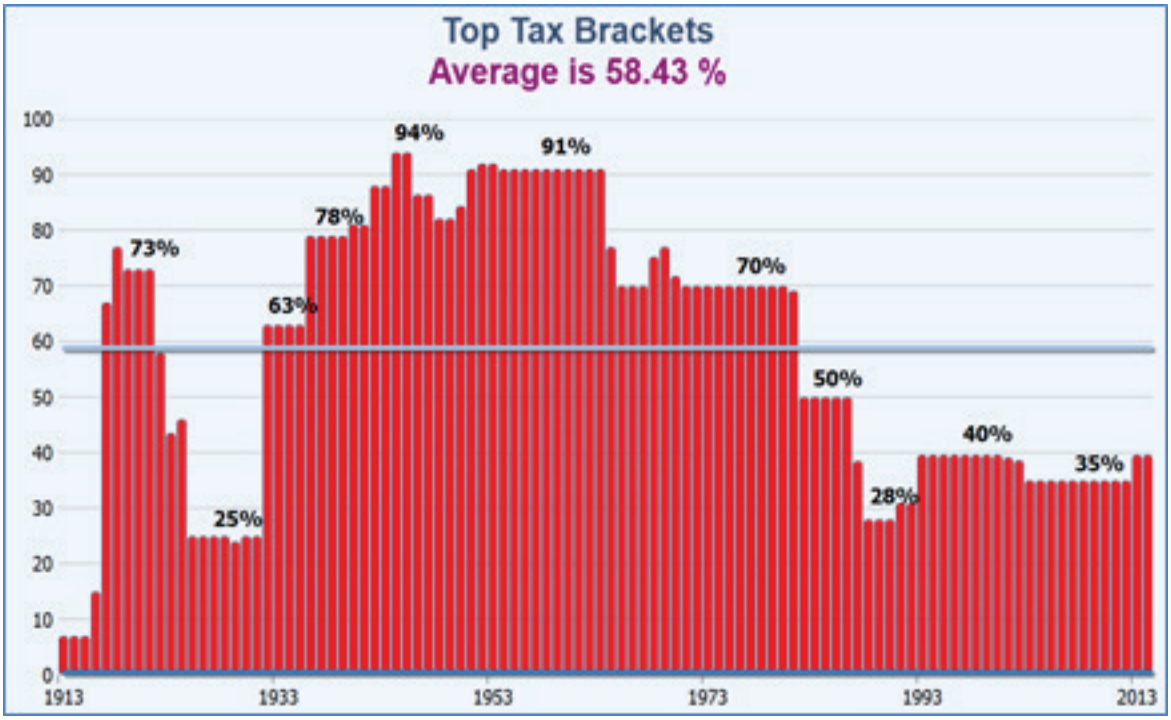
- *On November 2nd, 2015, President Obama signed a budget deal for the next two years that will raise the national debt ceiling from $18.5 trillion to $20 trillion, putting the U.S. debt at almost twice the level it was when he first took office.*
- *Current level of State debts exceeds $1.3 trillion.*
- *Municipalities collectively owe over $1.8 trillion.*
- *Americans have amassed over $16.1 trillion in personal debt including $1.3 trillion in student loan debt from our college grads.*
- *The total amount of unfunded U.S. liabilities including Medicare and Social Security currently sits at $224 trillion.*

Now that you understand the facts on our country's debt level, what do you think will happen to taxes in the future?

Ask anyone on the street what they think of taxes, and you'll get an earful. Everyone thinks they are paying way too much in taxes. What's interesting is that we are currently in a relatively low marginal tax bracket when you compare today's rates to historical rates.

Below is a chart that may surprise you, regarding our country's historical tax rates from 1913 to 2013:

Please listen to me carefully: *When taxes go up in the future, distributions from 401(k)s are going to be taxed BEYOND RECOGNITION!*



PROBLEM #2 – LOSS OF CONTROL:

Don't you hate it when someone tells you that you CAN'T do something, or that you MUST do something? Especially when it comes to your money. My feeling is this - if I earned it, I should be able to do whatever I want with it.

Unfortunately, when you contribute your hard-earned money into a 401(k), you give up control. In fact, the government dictates when you CAN access your money (without a penalty), and when you MUST access your money (Required Minimum Distributions). Most Americans don't know this.

Funds contributed into a 401(k) are subject to the 59 ½ rule. This rule says that if you withdraw money from your own 401(k) prior to age 59 ½ (with a few extreme situations), the IRS will slap you with a 10% penalty on that withdrawal. If you are in your 20s, 30s or 40s, that is a long time to wait to access YOUR money.

Additionally, the IRS dictates when you must begin withdrawing money from your 401(k). The year that you turn 70 ½, you are forced to begin taking RMDs (Required Minimum Distributions). This is a nice way of saying that you must withdraw a portion of your 401(k) and pay taxes on it each year. Every year thereafter, the percentage of your 401(k) that you must withdraw gets bigger and bigger. So, even if you don't need the money, Uncle Sam forces you to take it and pay taxes on it, so that the government can collect their portion of taxes on it.

To make matters worse, the penalties for non-compliance are an astronomical 50% of the amount not taken. For example, if you are age 71 and fail to pay taxes on your RMD of $30,000, the IRS will slap you with a $15,000 penalty…and you will still have to pay tax on the $30,000! Let me ask you a question: Would you knowingly go into a business with Uncle Sam as your business partner? The truth is, if you have a 401(k), Uncle Sam is your partner, and he controls the access you have to YOUR money.

PROBLEM #3 - 401(k) FEES:

Hidden or undisclosed fees are a major problem when it comes to 401(k)s. The sad reality is that most Americans don't have a clue as to what they are actually paying for these retirement plans, and current 401(k) regulations allow providers to legally mask the true costs for participants. Here is the truth about 401(k) fees, taken directly from the IRS:

401(k) plan fees and expenses generally fall into three categories:

Plan Administration Fees - The day-to-day operation of a 401(k) plan involves expenses for basic administrative services -- such as plan recordkeeping, accounting, legal, and trustee services -- that are necessary for administering the plan as a whole. These can also include fees for services such as telephone voice-response systems, access to a customer service representative, educational seminars, retirement planning software, investment advice, electronic access to plan information, daily valuation, and online transactions.

Administrative fees are either allocated among participants' individual accounts in proportion to each account balance (i.e., participants with larger account balances pay more of the allocated expenses) or passed through as a flat

fee against each participant's account. Either way, generally, the more services provided, the higher the fees.

Investment Fees - By far the largest component of 401(k) plan fees and expenses is associated with managing plan investments. Fees for investment management and other investment-related services are generally assessed as a percentage of assets invested. **These fees come in the form of an indirect charge against your account because they are deducted directly from your investment returns.** Your net total return is your return after these fees have been deducted. Here are some common examples of investment fees:

- **Sales charges** (also known as **loads** or **commissions**): These are transaction costs for buying and selling of shares. They may be computed in different ways, depending upon the particular investment product. These charges may be paid when you invest in a fund (known as a **front-end load**) or when you sell shares (known as a **back-end load, deferred sales charge,** or **redemption fee**).

- **Management fees** (also known as **investment advisory fees** or **account maintenance fees**): These are ongoing charges for managing the assets of the investment fund. They are generally stated as a percentage of the amount of assets invested in the fund. Sometimes management fees may be used to cover administrative expenses. The level of management fees can vary widely, depending on the investment manager and the nature of the investment product. Investment products that require significant management, research, and monitoring services will generally have higher fees.

- **Insurance-related charges** are associated with investment options that include an insurance component. They include items such as sales expenses, mortality risk charges, and the cost of issuing and administering contracts.

- **Surrender and transfer charges** are fees an insurance company may charge when an employer terminates a contract (in other words, withdraws the plan's investment) before the term of the contract expires, or if you withdraw an amount from the contract. This fee may be imposed if these events occur before the expiration of a stated period, and commonly decrease and disappear over time. It is similar to an early withdrawal penalty on a bank certificate of deposit or to a back-end load, or redemption fee charged by some mutual funds.

- **Individual Service Fees:** In addition to overall administrative expenses and investment fees, there may be individual service charges associated with optional features offered under a 401(k) plan. Individual service fees are charged separately to the accounts of participants who choose to take advantage of a particular plan feature. For example, individual service fees may be charged to a participant for taking a loan from the plan or for executing participant investment directions.

To summarize, 401(k) fees are extremely difficult to understand. You have to dig through all of the fine print to find them, and even then, most are not completely disclosed. If your investment choices return 5% to you for the year, think again. After all of the fees are assessed, you may be lucky to realize a 2.5% return.

What's worse is, in negative market years, when you lose money in your 401(k), guess what? The fees still come out. This only compounds your losses. And if you're fortunate enough to see your 401(k) balance increase… congratulations! That means you will only pay more in fees!

PROBLEM #4 -

MARKET RISK & SEQUENCE OF RETURNS RISK:

As I mentioned before, we have been conditioned. That's right, Americans have been conditioned to believe that we must risk our money to get competitive returns. The perfect example of this brain-washing is the 401(k).

By far the biggest issue I have with 401(k)s is the fact that 90% of the time, funds are invested directly in the Wall Street Rollercoaster. Whether your 401(k) offers stocks, mutual funds, ETF's, REIT's, or variable annuities, these are ALL market-based investments. So, when the market is up, so is your retirement account. BUT, when the market is down, you have the potential to lose everything.

Do you remember 2008 and 2009? I sure do. It was a horrible time when millions of Americans lost over half of their retirement nest egg. In the blink of an eye, their entire world was turned upside-down. Dreams of retirement, travel, and leisure were devastated by a variable they could not control…Wall Street.

I know people who had planned on retiring in 2008, but are still working today because they cannot afford to retire. Folks, neither you nor I can control the market. We have NO influence, so why do so many Americans continue to pour all of their hard-earned money into it? Is it the excitement and adrenaline felt, as if you were throwing it all on the roulette table? Is it the hope that you will come out with more than you put in?

No, I think the reason that most Americans continue to gamble their money in the Wall Street Casino is this…everybody else is doing it. This thinking is dangerous! For many Americans, this mindless "follower" mentality has devastated their lives. Their "golden years" are filled with fear about what is happening on Wall Street. It doesn't have to be this way.

Market Risk is serious, and can cut 401(k)s in half overnight. As dangerous as Market Risk is, I'd like to bring your attention to another risk, as you approach retirement with your 401(k) invested in the market. You'll never hear this from the media or your broker, but it's real and it rips apart retirement dreams for millions of Americans. It's called Sequence of Returns Risk.

In fact, a close friend of mine saw his "golden years" completely destroyed when Sequence of Returns Risk hit his portfolio. His only solution was for him to drastically change his lifestyle and go back to work at age 68.

Here's how it works. Every day, the market goes up, and it goes down…completely out of our control. This volatility can negatively impact our retirement savings during the accumulation years, but it can completely destroy our retirement nest egg during the distribution years.

Once we have begun withdrawing income in retirement, down market years can have a multiplying, negative effect on our savings, essentially diminishing any remaining assets. Over time, this depletion of savings will cause your retirement accounts to run dry. Here's a very real example of what I'm talking about.

Let's examine two individuals, Jim and Cheryl. Both Jim and Cheryl retired at age 65, and had the same starting account values of $600,000. They entered into retirement with high hopes and big dreams, each planning to live on 5% of their savings each year. Of course, they would increase this amount annually by 2.7% to keep up with inflation. Let's look at the results…

JIM			
Age	Market Gain/Loss	Annual Withdrawal	Nest-Egg at Start of Year
64			$600,000
65	-9.22%	$30,000	$600,000
66	-12.88%	$30,810	$517,446
67	-23.62%	$31,642	$423,957
68	13.65%	$32,496	$299,651
69	1.26%	$33,374	$303,621
70	11.56%	$34,275	$273,652
71	28.33%	$35,200	$267,050
72	-7.35%	$36,151	$297,533
73	24.33%	$37,127	$242,171
74	4.13%	$38,129	$254,931
75	7.54%	$39,158	$225,756
76	-2.20%	$40,216	$200,667
77	31.11%	$41,302	$156,921
78	19.64%	$42,417	$151,589
79	32.66%	$43,562	$130,614
80	27.54%	$44,738	$115,483
81	19.44%	$45,946	$90,228
82	25.63%	$47,187	$52,891
83	-36.55%	$4,777	$7,166
84	2.00%	$0	$0
85	11.43%		
86	4.10%		
67	25.40%		
88	23.99%		
89	11.00%		
Average Return		Total Withdrawal	
9.32%		**$688,505**	

CHERYL			
Age	Market Gain/Loss	Annual Withdrawal	Nest-Egg at Start of Year
64			$600,000
65	11.00%	$30,000	$600,000
66	23.99%	$30,810	$632,700
67	25.40%	$31,642	$746,283
68	4.10%	$32,496	$896,160
69	11.43%	$33,374	$899,075
70	2.00%	$34,275	$964,651
71	-36.55%	$35,200	$948,983
72	25.63%	$36,151	$579,795
73	19.44%	$37,127	$682,981
74	27.54%	$38,129	$771,409
75	32.66%	$39,158	$935,225
76	19.64%	$40,216	$1,188,722
77	31.11%	$41,302	$1,374,073
78	-2.20%	$42,417	$1,747,396
79	7.54%	$43,562	$1,667,470
80	4.13%	$44,738	$1,746,351
81	24.33%	$45,946	$1,771,889
82	-7.35%	$47,187	$2,145,865
83	28.33%	$48,461	$1,944,426
84	11.56%	$49,769	$2,433,092
85	1.26%	$51,113	$2,658,835
86	13.65%	$52,493	$2,640,579
87	-23.62%	$53,910	$2,941,360
88	-12.88%	$55,366	$2,205,434
89	-9.22%	$56,861	$1,873,140
Average Return		Total Withdrawal	
9.32%		**$1,051,700**	

As we look at this scenario, it's interesting to note that both Jim and Cheryl averaged a 9.32% return over this 25 year period. The difference, however, is that Jim experienced negative years early in retirement – notated by the red cells - and Susan experienced negative years late in retirement. Look at the staggering difference in the two outcomes.

Remember, both started with same amount of money, and averaged the same exact return. The difference was this…the Sequence of Returns. Unfortunately, Jim ran out of money at age 84, only taking out $687,000. Susan, on the other hand, drew over $1,000,000 by age 89 and still had $1.8M left.

What a difference! Retirement is full of uncertainties. Most of them are out of our control. Sequence of Returns Risk, however, is different. It is 100% avoidable, but many Americans will still feel its devastating effect. The reason? They continue to risk their hard earned savings in the Wall Street Rollercoaster. Unfortunately for them, NO ONE knows when the market will crash…and if it happens at the beginning of your golden years, this could devastate your retirement.

SOLUTION:

So what's the alternative? What is the best way to save for retirement?

The answer is not simple. There are many variables to consider when constructing the "perfect plan," and I'm certainly not a believer in "one size fits all." But there are both alternatives or supplements to 401(k)s that make sense for many of my clients.

For over 23 years, I've been assisting clients with a retirement solution that provides them with the following benefits:

- Competitive rates of return
- Access to your money ANYTIME you want it, and 100% protection against market downturns
- No government control over when you CAN take income, or when you MUST take income
- 100% Tax-Free distributions in retirement
- No maximum limit on your contribution amounts
- And finally, additional protection for unexpected life events, such as job loss, medical emergencies, or premature death

If the information found in this report is concerning to you, I'd like to offer you a FREE, NO-OBLIGATION solution that could completely change the way you think about saving for retirement. It doesn't matter if you are just starting to save or if you've been accumulating a nest egg for many years, the information I'm about to offer you for FREE can greatly change the financial future for you and your family. If you've taken the time to read through this report, you must be serious and genuinely interested in securing a sound future filled with peace of mind, knowing that your retirement cannot be torn apart by taxes, lack of control, excessive fees, or market risks.

If this describes you, then I'd like to offer you this FREE resource. It is a book written by a good friend of mine, Merle Gilley. In the book, he outlines a simple solution that every American can utilize to realize the benefits outlined above. The title of the book is *My Family Financial Miracle*. I'd like to send it to you at no cost… on one condition. I need your commitment to READ THE BOOK. You have my commitment that if you do, it will change your outlook on saving for retirement, and dramatically change your financial future for the better.

The retail cost of Merle's book is $17.95, but you can get your copy FREE by simply sending us a request at:

- **Email: info@wplanners.com**

Thank you for your interest in my report, and I look forward to hearing from you soon.

Best Regards,
David Shields