WHY YOUR IRA (OR 401K) IS A TICKING TIME BOMB

DOES IT MAKE SENSE TO DO A ROTH CONVERSION?

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You are probably reading this because you have an IRA or 401K that you are considering converting to a Roth IRA.

Benefits of Converting an IRA to a Roth IRA:

Once Converted Your Money Grows Tax-Free!

Converted Money is Not Subject to RMDs at age 73!

Subsequent Distributions to You and Your Heirs are Tax-Free!

Converting an IRA, 401k or other qualified plan to a Roth IRA offers huge benefits including tax-free growth and tax-free distributions to you and your heirs.

Additionally, if you convert to a Roth, you will no longer be required to take mandatory RMDs or Required Minimum Distributions at age 73.

Primary Factors that Adversely Affect Retirement Accounts

The primary factors that adversely affect traditional retirement accounts are:

1) STOCK MARKET CRASHES
2) Methods used by financial advisors to manage stock market volatility including
    - ASSET REALLOCATION
    - 4% RULE, and
3) TAXES.

Let's examine their destructive impact on stock market-based IRA or 401K plans!

How Many More Market Crashes In Your Lifetime?

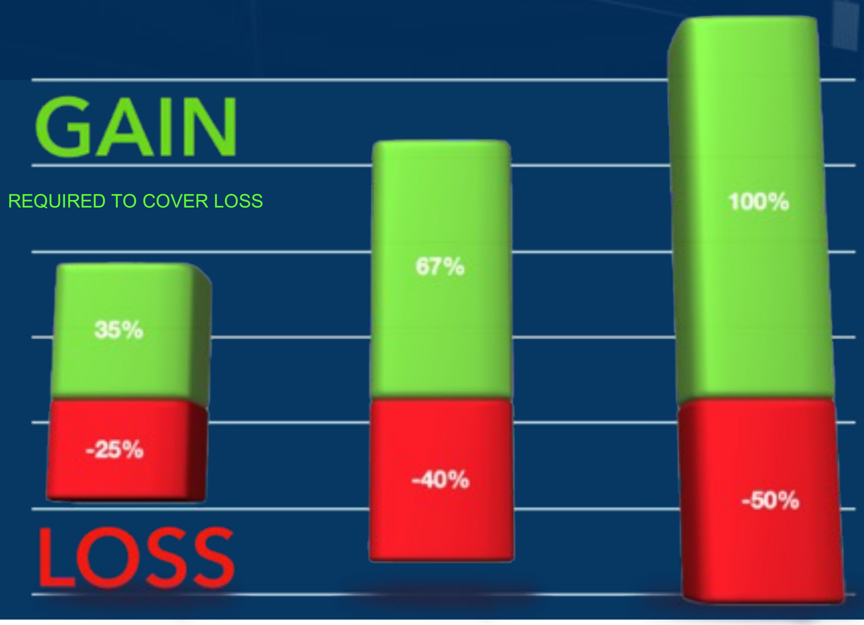
The stock market goes up and down but, on average, in the last century it has experienced a crash of over 40% about every 10 years.

Average loss of 40% every 10 years!

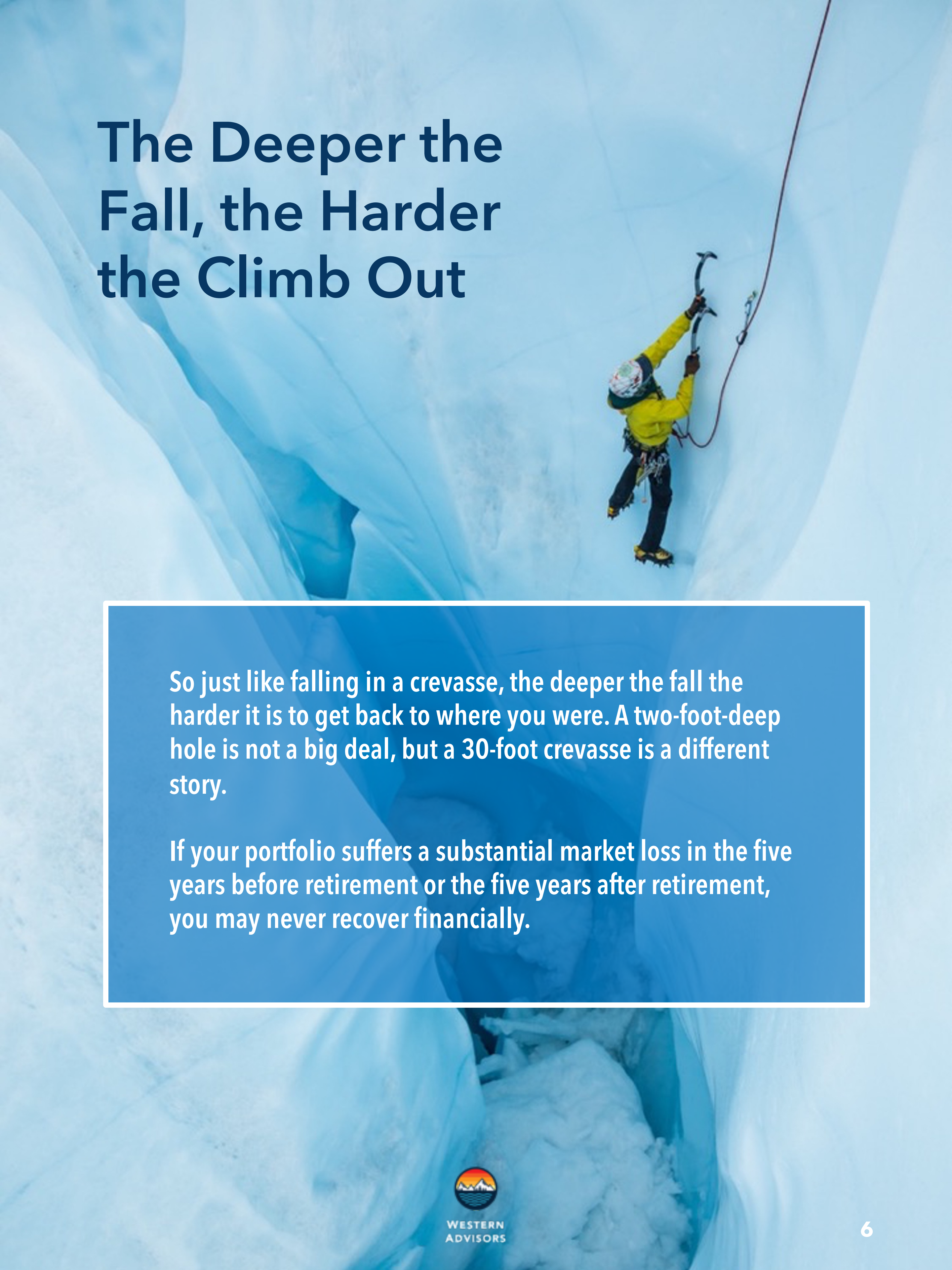
EVENT	LOSSES	DURATION	RECOVERY
CRASH OF 1929	-86%	23 MONTHS	129%
1937 FED TIGHTENING	-60%	49 MONTHS	158%
POST WW2	-30%	85 MONTHS	267%
EISENHOWER RECESSION	-22%	13 MONTHS	39%
CRASH OF 1962	-28%	39 MONTHS	76%
1966 CRISIS	-22%	25 MONTHS	48%
TECH CRASH ’70	-36%	31 MONTHS	74%
STAGFLATION	-48%	32 MONTHS	62%
1987 CRASH	-34%	113 MONTHS	417%
TECH BUBBLE	-49%	60 MONTHS	101%
2008 FINANCIAL CRISIS	-57%	132 MONTHS	326%
CORONA CRASH	-32%	5 WEEKS	6
BIDENOMICS DECEMBER	-25%	10 MONTHS	??

The Disproportionate Loss Effect:

When you lose money, it has a disproportionately larger effect on your wealth. For example, if you had a $100,000 and lost half of it or $50,000, you would have to double that $50,000 to get back to $100,000. In other words, even though you lost 50% you must now earn 100% to get back to even.



Because your basis shrinks when you have losses, it requires you to earn a higher return to get back to break-even.



The Deeper the Fall, the Harder the Climb Out

So just like falling in a crevasse, the deeper the fall the harder it is to get back to where you were. A two-foot-deep hole is not a big deal, but a 30-foot crevasse is a different story.

If your portfolio suffers a substantial market loss in the five years before retirement or the five years after retirement, you may never recover financially.

The Impact of Market Volatility:

This chart shows the number of years to recover a percentage loss (y axis) when recovering at a specific rate of return (x axis).

What Is The Impact Of Market Volatility?

And recovered at this rate

If you lost this much money

	3%	5%	7%	9%
-10%	3.6	2.2	1.6	1.2
-20%	7.5	4.6	3.3	2.6
-30%	12.1	7.3	5.3	4.1
-40%	17.3	10.5	7.6	5.9
-50%	23.4	14.2	10.2	8.0

It would take this many years to get back to where you started

For example, in 2008 the stock market took a 40% tumble. With the market recovering at a 7% to 9% pace, it still took 6-8 years just to get back to even. ***So, the net effect was that people not only lost money but also lost 6-8 years of time just getting back to even. Stated otherwise, they lost the power of compounding for 6-8 years!***

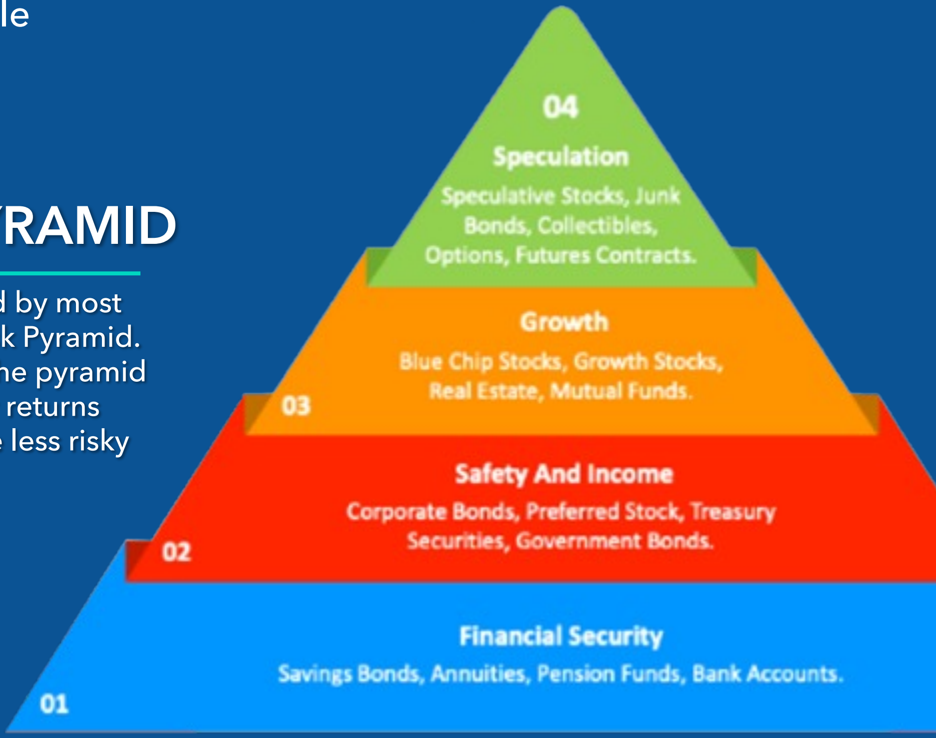
Asset Reallocation:

Because the stock market is inherently risky, financial advisors seek to manage its volatility. Let's go over two of the most common methods used in typical retirement plans to manage market volatility:

1.) Asset Reallocation and
2.) The 4% Rule

THE RISK PYRAMID

A basic principle espoused by most financial advisors is the Risk Pyramid. Investments at the top of the pyramid are the riskiest with higher returns while those at the base are less risky with lower returns.

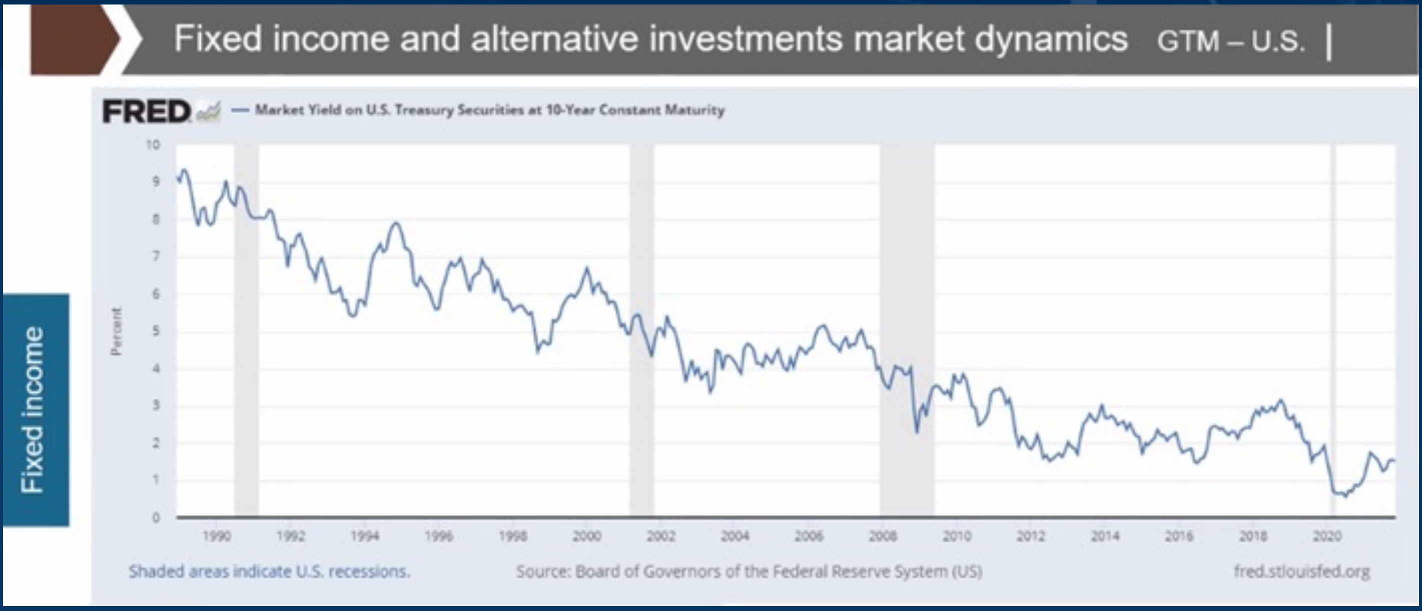


As people age financial advisors advise them to allocate more and more of their assets into lower risk and lower return investments, typically bonds or bond funds.

Because of the low return of bonds, this has an extremely detrimental effect on your retirement plan's long-term growth.

Historical Bond Returns

This is the historical return of bonds since 1990 when interest rates were very high. In the last 20 years, bond returns have been very low.



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Have You Heard of the 4% Rule?

The “4% Rule” is a broadly accepted rule of financial advisors that investors can withdraw 4% of the balance of their investment accounts annually without exhausting their portfolio over a 30-year retirement. (Assumes an annual inflation adjustment).

However, this rule has recently come under scrutiny because of our high stock market volatility and historically low interest rates. Many think it should be revised to 3%.

What does the 4% Rule Mean to You?

It means that you need

$1 million dollars

to get

$40,000 of annual income

from a traditional stock/bond portfolio!

The 4% Rule's purpose is to hedge against stock market crashes. However, it is exceptionally limiting!

Stock Market Volatility combined with the 4% rule significantly limits how much you can take out of your stock market accounts during retirement.

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TAXES

Are Likely Your Single Biggest Retirement Risk.

(Particularly Rising Taxes)

Let's move on to taxes, which are likely your biggest retirement risk.

I'll bet that when you first opened your 401K plan at your first job, they told you what a great thing you were doing by putting aside money that would grow until you retired.

But did they tell you that not only was it your retirement plan but that it was also Uncle Sam's government funding plan?

Did they tell you that he was the managing partner, and you were a limited partner and that he could raise taxes whenever he wanted, and you would simply get a smaller piece of the pie and have less income?

Is It Likely that Taxes Will Go Up in the Future?

Let's look at how our government spends our tax money.

Since COVID, government spending has ballooned. Social Security is expected to have financial challenges in the future and with rising medical costs, Medicare costs will likely increase, as well.

The national debt has TRIPLED in the past 15 years...
With higher interest rates the cost to service the debt has soared!

2008:

$9.8 trillion

2023:

$33 trillion

How will the Government make up for the shortage?

RAISE TAXES

CHANGE TAX BRACKETS

ELIMINATE TAX BRACKETS

Government expenditures are paid solely with tax revenues. These are the three ways the government can make up the shortage. Which one do you like best?

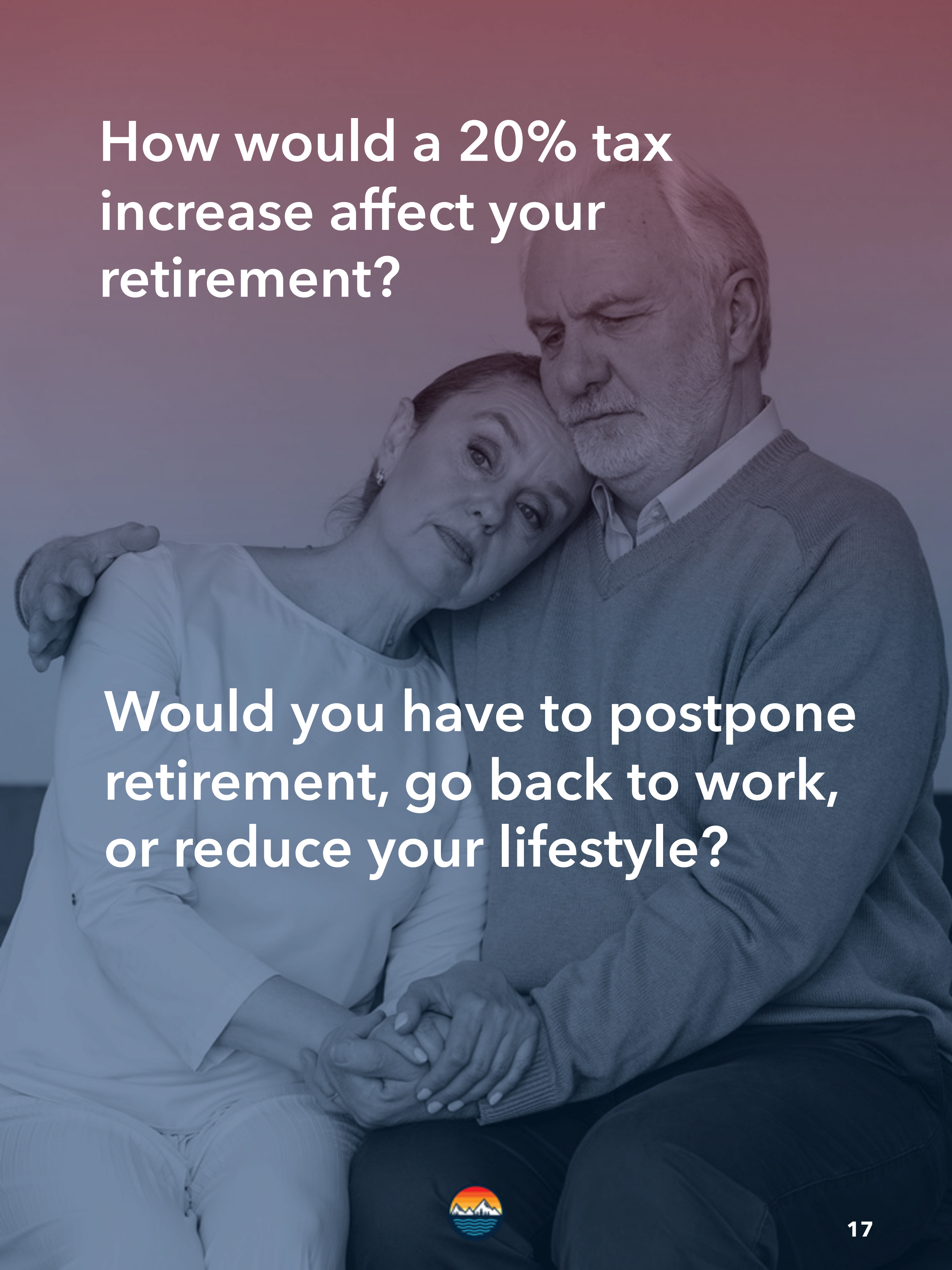
Our Taxes are Currently Low from an Historical Perspective…

…but they are more than likely headed up!

Comparative Tax Rates for "Married Filing Jointly"

2021			2017 (2026)		
$ 0 - 19,900	x	10%	$ 0 - 18,650	x	10%
19,901 - 81,050	x	12%	18,651 - 75,900	x	15%
81,051 - 172,750	x	22%	75,901 - 153,100	x	25%
172,751 - 329,850	x	24%	153,101 - 233,350	x	28%
329,851 - 418,850	x	32%	233,351 - 416,700	x	33%
418,851 - 628,300	x	35%	416,701 - 470,700	x	35%
628,301 *and above*	x	37%	470,701 *and above*	x	39.6%

Currently, our tax rates are very low when analyzed from an historical perspective. However, if no new legislation is passed before 2026 then taxes will go up and revert to 2016 levels in 2026.



How would a 20% tax increase affect your retirement?

Would you have to postpone retirement, go back to work, or reduce your lifestyle?

Five Tax Traps Where Uncle Sam May Get You if You Don't Do a Roth Conversion!

By leaving your money in an IRA, Uncle Sam has stacked the deck against you.

Here are five tax traps that will get you if you leave your money in an IRA and don't do a Roth conversion.

TAX TRAP 1

Required Minimum Distributions

25% PENALTY:
If the RMD is not taken, then there is a 25% penalty.

RMD INCREASE:
Each year, if your IRA account balance increases, so will the amount of your RMD.

Required Minimum Distributions (RMDs) are mandatory on all traditional IRAs and other qualified plans beginning at age 73.

TAX TRAP 2

Taxation of Your Social Security.

Too much income from your IRAs may make **up to 85% of your Social Security taxable!**

Money coming out of IRAs counts as income while money coming out of Roth IRAs does not.

TAX TRAP 3

IRMAA*

Medicare tacks on an IRMAA* surcharge if your income from IRAs and other sources is too high!

Again, money coming out of IRAs counts as income while money coming out of Roth IRAs does not.

*Income Related Monthly Adjustment Amount

TAX TRAP 4

Death of a Spouse.

When your spouse dies, your tax rate may rise by a substantial amount.

For example, presently, if you make $185K, your marginal tax rate under Married Filing Jointly would be 22% while if you were filing as Single, your tax rate would be 32%.

TAX TRAP 5

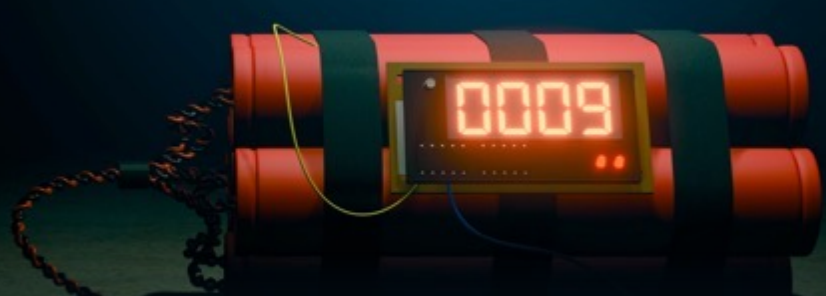
Non-Spousal Inheritance

IRA money passed to your non-spousal heirs is **taxable as ordinary income** and taxes must be paid by them within 10 years of receipt.

Unfortunately, this may come at an inopportune time for your children when they are likely in the highest earning years of their careers.

So, what is the net effect of all these tax traps on your typical pre-tax retirement plan?

Effectively, these tax traps serve as a forced depletion of your IRA or 401K by Uncle Sam!



IRAs and 401Ks truly are Ticking Time Bombs!

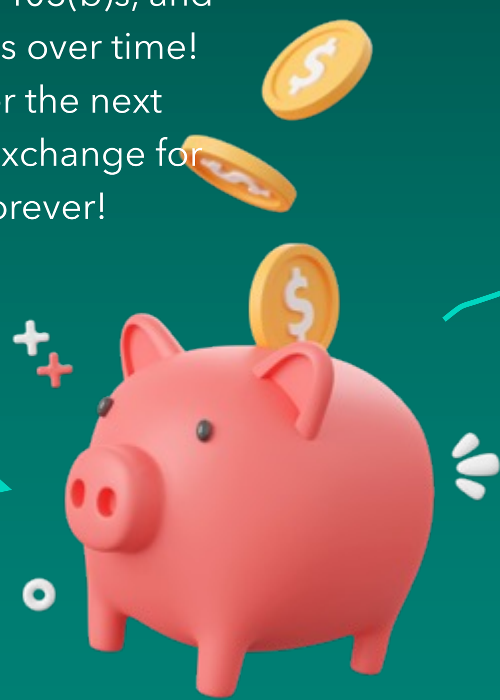
Is There a Way to Avoid RMDs and Other Escalating Taxes?

The Solution is a

Partial Internal Roth Conversion

We convert IRAs (or other qualified pre-tax accounts including 401Ks, 403(b)s, and TSPs) to Roth IRAs over time! Pay the taxes over the next several years in exchange for tax-free money forever!

PAY TAXES OVER TIME



ENJOY TAX-FREE MONEY FOREVER

NO MORE RMDS!

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So, What is a Partial Internal Roth Conversion?

It uses an IRS approved strategy that allows for a Roth Conversion and payment of taxes over time.

The Conversion is managed in such a way as to maximize the amount converted each year while paying the minimum amount of tax.

The ideal time to do the Conversion is between the ages of 60-72 before you must take mandatory RMDs at age 73.

The Roth Conversion is performed without dipping into your principal to pay taxes. In other words, ***you do not have to come out of pocket to pay the taxes!***

Why An Indexed Annuity is the Best Vehicle for a Roth IRA Conversion

This annuity has a 0% floor which prevents losses in your account while you are converting assets. As such, you never have to make up losses.

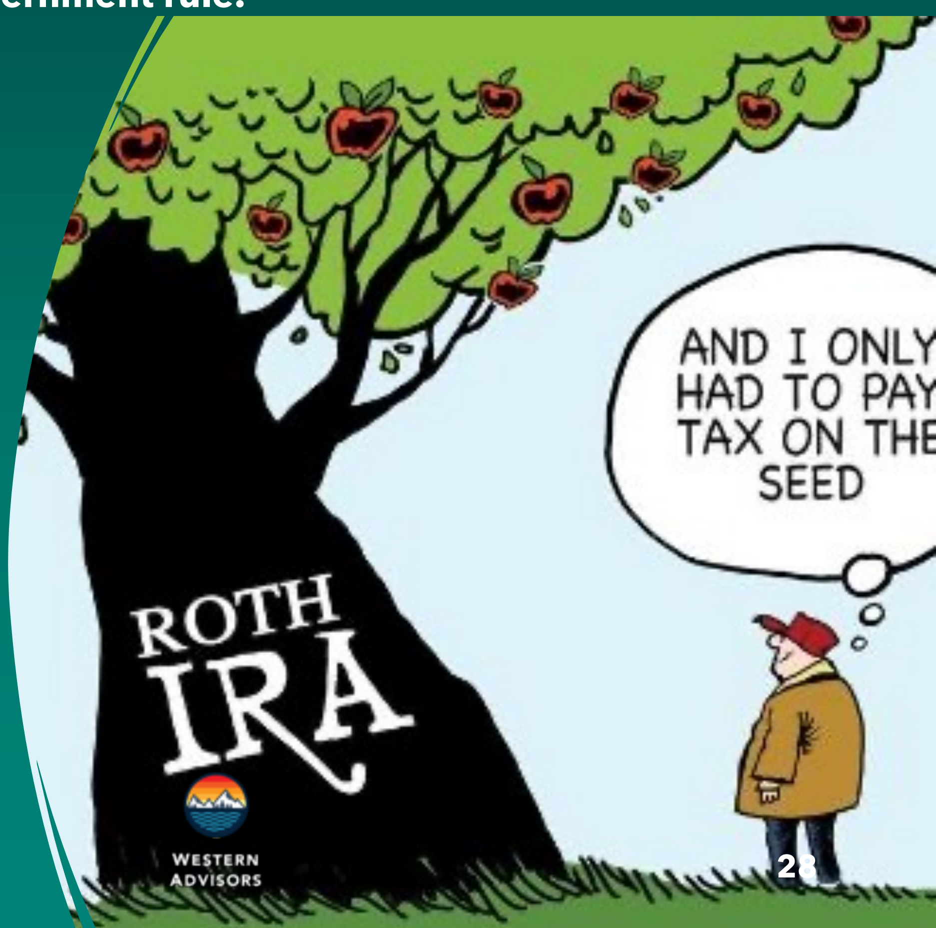
A special kind of IRA Annuity is used which has a Roth IRA subaccount. Each year a partial Roth conversion is performed and managed to minimize taxes. You simply decide how much to convert to the Roth IRA.

The Insurance Company's upfront bonus (between 10% and 18%) and the annuity's growth fund the payment of taxes, so you don't have to come out of pocket or liquidate other assets to pay taxes.

With 6 to 10 percent average historical returns, your money doesn't have to be moved to low return bonds as you age.

Who Should do a Roth Conversion?

1. **Do you believe taxes will go up in the future?**
2. **Do you want to pay taxes on the seed or the harvest?**
3. **Do you want to be forced to take out RMDs and pay taxes every year?**
4. **Do you want to leave a tax-free legacy to your heirs?**
5. **Can you wait 5 years to withdraw tax-free money? This is a government rule.**



Our Unique Roth Conversion Strategy May Potentially Provide You with 2x to 3x More Income and Money in Retirement than a Typical Retirement Plan!

To get a complimentary comparison of your current retirement plan with our unique Roth Conversion Strategy, go to:

www.calendly.com/westernadvisors

About Western Advisors:

Our mission is to help our clients grow their assets and prepare for retirement.

We do this by helping them protect against those risks that might diminish or damage their quality of life in their retirement.

We help our clients put strategies in place to mitigate all or most of their risks in retirement.

We help our clients protect against stock market crashes, reduce their tax burdens, as well as create a lifetime tax advantaged income stream.

DAVID FACER
OWNER & FOUNDER
Western Advisors

I help small business owners, executives, professionals and retirees grow their assets and protect them from stock market crashes and taxes.

As an independent advisor I consult with clients and make recommendations that provide my clients with the best solutions based on their specific situations.

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401kNOTok.com

(509) 466-3047

info@westernadvisors.us