RE$CUE YOUR RETIREMENT

Five Wealth-Killing Traps of 401(k)s, IRAs and Roth Plans—and How to Avoid Them!

PAMELA YELLEN

NEW YORK TIMES BEST-SELLING AUTHOR

"Pamela Yellen should win a Nobel Prize. With her guidance, you can grow a nest egg into a small fortune."

—JOSEPH SUGARMAN, Entrepreneur, Author, and BluBlocker Corporation Founder

What People Are Saying About Pamela Yellen...

"Pamela Yellen should definitely win a Nobel Prize. With her guidance, you can grow a nest egg into a small fortune without the risks of conventional investments and political uncertainty."

–JOSEPH SUGARMAN, Entrepreneur, Author, and
BluBlocker Corporation Founder (1938-2022)

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Introduction

"People just haven't saved enough for retirement. And they're going to outlive their money."

—SALLIE KRAWCHECK,
former President, Global Wealth and Investment Management, Bank of America

WHEN YOU were a kid being scolded for some hair-brained scheme, did your mom ever say, "Just because every other kid in town jumps off a cliff, does that mean you should do it too?" Remember the old Road Runner cartoons? Well, if you've been following the conventional "wisdom" for your retirement planning, odds are you're headed toward one of those Wile E. Coyote splats from a 500-foot fall.

And this will happen *even though* you've been conscientious about contributing to your retirement plan, despite the fact that you've been "doing all the right things" financially and are one smart, savvy cookie in most areas of life.

At retirement, Road Runner is still gonna get you.

You may have had an inkling of this truth. You may have pushed your retirement age back a few years. You may have started to downsize your expectations about the lifestyle you'll be able to live in retirement.

You may have spent a few restless nights calculating and recalculating how much money you'll have during your elder years and exactly what that looks like (less like gourmet candlelit dinners in Cancun and more like tuna sandwiches on the back porch). Or maybe you've seen your retirement account tank in the market, had a medical emergency drain what you had saved, or lost your job, which ended your career way earlier than you had planned.

You're not alone. As Robert J. Shiller, Professor of Economics at Yale University, noted...

> "Errors of human judgment can infect even the smartest people, thanks to overconfidence, lack of attention to details, and excessive trust in the judgments of others, stemming from a failure to understand that *others are not making independent judgments*, but are themselves following still others—the blind leading the blind."

I know, I know. This book will probably make you *extremely* uncomfortable. But haven't the past few years *already* made you uncomfortable?

Since I wrote the first edition of this book in 2019, we've seen a pandemic that shuttered businesses and disrupted supply lines. Inflation hit its highest rate in 40 years, followed by the highest interest rates in 22 years. Our country's credit rating was downgraded due to a dysfunctional Congress and exploding debt. If it wasn't obvious before, suddenly it's crystal clear that you've built your financial future and retirement on a house of cards (conventional Wall Street-based retirement plans) that can come tumbling down at any time by events you have absolutely no control over.

I take no joy in saying it, but I'm the bearer of bad tidings.

But if you can get through all the fear, angst, and anger these bad tidings may cause you, I also have some good news. And if you can hang in there and keep an open mind, I can show you how to turn your rotting financial ship into a sleek, secure sailing vessel.

In this short book, I will help you understand exactly why the Economic Policy Institute said in its report on The State of American Retirement: "The shift from pensions to 401(k)s has failed the majority of American workers." I'll give you stats about the ugly results that conventional retirement plans (401(k)s, IRAs, 403(b)s, etc.) have produced for so many. I will show you why your life in retirement will likely last longer than you think it will, cost far more than you've planned for, and why you need to take a *different approach* to avoid outliving your money.

And I'll give you questions to ask yourself to help you estimate the financial fiasco you might face in retirement if you stay on your current path.

Yeah, the first part of this book may be painful to read. But it will arm you with the facts and strategies you need so you don't wake up one morning wanting or needing to retire—but without enough money to do so.

Next, I'll expose the **five wealth-killing traps of conventional retirement plans**, such as 401(k)s, IRAs, 403(b)s, and Roth plans. You're probably not even aware of these traps. Or if you are aware of them, you've been told by everyone—your financial advisor, plan administrator, and dentist—that these traps are unavoidable, necessary evils on the road to retirement (they aren't). And it's *not* too late to do something about it. I will reveal exactly how these traps jeopardize your future and erode the financial security you've struggled to build, leaving you vulnerable *despite* your best efforts.

Okay, so this part isn't a barrel of laughs either.

However, after I explain these five devastating traps of your conventional retirement plan(s), I'll reveal how to avoid them. I'll show you a time-tested option that's been around much longer and has produced much better and more consistent and predictable results than those government-sponsored conventional plans you've been putting your hard-earned dollars into. It's a strategy that has helped millions of families achieve their retirement and financial goals and dreams without taking *any* unnecessary risks. That's the fun part!

But we need to get through the rough stuff first...

CHAPTER ONE

Uncomfortable Truths about Conventional Retirement Plans

"Prediction is very difficult, especially if it's about the future."

—NEILS BOHR, Nobel Prize-winning physicist

I HAVE NO idea what the economic climate will be as you read this book. Absolutely no clue. We could be in a screaming bull market, in the throes of a financial crash and recession, or somewhere in between. And the truth is, *nobody else knows either*.

I'm writing this second edition in the last months of 2023. Since January 2020, electricity costs and grocery prices have risen by 25%; used-car prices are up by 35%; auto insurance by 33%; and rents by around 20%, according to Bloomberg. Today, you need to spend nearly $120 to get the same goods and services you got for $100 in 2020.

Interest rates on credit cards are higher than they've ever been. According to Redfin, mortgage rates hit a 23-year high, and the average monthly mortgage payment has nearly doubled since Aug 2020. In March 2020, the median price for an existing home was $280,700. By July 2023, it was $406,700.

No wonder 56% of American workers feel behind where they think they should be on their retirement savings. After paying monthly bills, what's left to save?!?

And stock market unpredictability isn't helping. Between 2000 and 2019, we had two stock market crashes of 50% or more, and the market continues to be as volatile as a hormonal teenager. Warren Buffett, the Oracle of Omaha and arguably the savviest investor of all time, had this to say in one of his annual shareholder's letters:

> "Stock market losses of 50% or more are not only possible but inevitable in the future... No one can tell you when these will happen. The light can at any time go from green to red without pausing at yellow."

By definition, Black Swan events—like weather disasters, pandemics, wars, and high inflation—are unexpected and supposed to be rare. Yet, we've been hit with a whole flock of them lately, causing the markets to freak out. Do you really believe the market will never crash again? Or that you'll have enough warning to get out if it does?

When I wrote the first edition of this book in 2019, we were in the longest-running bull market in history and the first to hit its tenth birthday. It hit record highs in January 2020 — which would have been great news if it weren't for the fact that COVID showed up and caused the market to tank just one month later. Remember the second Black Monday just three months after that record high, when the market dropped by nearly 13% in one day? Did you see that coming? Me neither.

The critical question is: How much does your retirement depend on the stock market, a beast you can't predict or control? A beast that can turn on a dime? If your funds are in a conventional retirement plan, the answer is usually "nearly 100%."

Before we get into a brief history of how we got into this mess, let me point out the critical difference between "saving" and "investing." *Saving* is what you do with money you *can't afford to lose,* so you *know* the money will be there when you need it. *Investing* is what you can do with money you *can afford to lose*. You throw it on a craps table in Vegas or the Wall Street roulette wheel. You're taking a considerable risk with the *hope* of having a gain.

Now let me ask you: Is the money in your retirement accounts money you can afford to lose? Probably not. So, if you *can't* afford to lose it, should you be *investing* that money or *saving* it? Well, if you're in a conventional retirement plan and you're like most people, you are most likely "investing" your hard-earned life's savings in...

The Wall Street Casino

We've been told repeatedly that to get our money to "work" for us, to build a sizable nest egg, and to get a rate of return that will outpace inflation, we *must* invest in the stock market and be willing to accept its inherent risks. How often have you heard that the stock market is the best place to grow your nest egg? I will prove to you that this is a myth that Wall Street has brainwashed us into. Wall Street *grudgingly* admits there are no guarantees that your investment account won't lose some—or all!—of its value in any given year.

But let's look beyond that statement to the heart-stopping reality: In the two market crashes between 2000 and 2019, many people lost 50% or more of their retirement funds. In 2020, the S&P declined 34% from the February 19 high to the March 23 bottom. Then, almost as quickly, the market reversed. Unfortunately, that didn't last long. In 2022, the average 401(k) balance plunged 22.9%, according to a Fidelity Investments analysis of retirement accounts. It's pretty nasty news if 2022 was the year you planned to retire!

The market is rallying, as I write, but *you'd need an increase of almost 30% to get back to where you were* and *another 3.5% increase* to keep even with inflation in 2023, let alone to have a gain.

Could a major market crash happen again? Of course! And that's the problem. So, the big question to ask yourself is (in the immortal words of Dirty Harry): "Do I feel lucky?"

Since 1929, we've had *three* market crashes where the Dow took between 16 and 25 years to return to pre-crash levels.

Can you imagine the impact on your retirement plans if you have to wait 25 years for the market to recover?

But will waiting, whether it's for 25 years or 5 years, even make a difference? Let's take the last 5 years (3rd quarter of 2018 to 3rd quarter of 2023). Fidelity Investments, the largest 401(k) plan provider, reports that the average 401(k) account balance barely budged, increasing by *only $1,200* from $106,500 to $107,700. Yet during the same period, inflation was a whopping 21%. That means that those average 401(k) account balances **needed to be at nearly $129,000 just to keep up with inflation!**

Okay, but what if you waited longer, say ten years, like the "experts" say you should? On the surface, that looks better. The average 401(k) was $84,600 10 years ago, and near the end of 2023, it was $107,700 (a 27.3% gain). But inflation over that period was **30.45%,** so the average 401(k) would have to be over $110,000 today *just* to keep up with inflation.

Really, how enthusiastic are you about gambling with the funds you'll need when you're no longer working? Here's a quick test to measure it: What is the *minimum* acceptable annual return you'd want to get that would make you willing to stomach the nerve-wracking volatility of the stock market? 7%? 10%? Maybe even more? I've surveyed thousands of people, and almost everyone says they wouldn't endure the agony if they got only 5%.

So, if most people wouldn't put up with the stomach-churning unpredictability of the stock market for an annual return of 5%, how come so many people accept a real annual return of less? According to the 2023 DALBAR study, the typical investor in equity mutual funds has gotten only a 4.3% return (after adjusting for inflation) for the past 30 years!

Are you kidding me?
A 4.3% "real" average annual return for 30 years of stomach-churning ups and downs?!?

Others fared even worse: The typical asset allocation investor had essentially *no growth* after considering inflation, and fixed income investors *lost* ground even *before* factoring in inflation!

Wait! If the market can be so unpredictable and the returns so minimal, how did so many of us come to risk our retirement funds in the Wall Street Casino? Well, an interesting thing happened on the way to retirement...

A Brief History: The Fix That's Broken

Before 1978, your grandfather's or great-grandfather's employer *promised* him a certain amount of money every month in retirement for as long as he lived. Those plans are called pension plans. The technical name is "defined benefit plans." The benefits you were to receive were defined and laid out in advance. Unless something catastrophic happened, those benefits were *guaranteed*. But these days, pension plans are as rare as the Northern Hairy-Nosed Wombat. (These critters do exist, but they're *very* rare.)

Even if you're one of the lucky few participating in a company pension plan, keep reading. *Sadly*, those plans are in danger, too.

According to the Federal Reserve, pensions (public and private combined) are underfunded by about 23% as hordes of people with pensions are entering or approaching retirement!

In 1978, Congress added Section 401(k) to the tax code, creating a tax-deferred way for employees to *augment* their pensions. These plans were *never* intended to replace company pension plans, but that's what's happened. At one time, 80% of private sector workers with a workplace retirement plan had a pension. But according to the Bureau of Labor Statistics, by 2023, only 15% of private sector workers had access to a company pension, and just 11% of people participated in one.

Companies figured out that it's cheaper to offer a small matching contribution to an employee's 401(k) plan than to fund and pay for the management of a company pension plan. So, they transferred the burden of funding employees' retirement to the employees themselves.

That would be us.

If you are an employee today, your company very likely offers a 401(k), 403(b), or similar plan. The funds in that plan are typically invested in the Wall Street Casino, that thing that you can't control or predict. Technically, these plans are called "defined contribution plans," but the more accurate name is "hope and pray" plans.

Even the "Father of the 401(k)" Has Disowned It

I hate to dash those hopes and disappoint those prayers, but you should know that even the man considered to be the Father of the 401(k) now despises the whole system! Ted Benna, who seized on an IRS loophole over four decades ago to transform American retirement savings, thinks he created a monster. Benna told MarketWatch in 2011 that the 401(k) *"monster is out of control...It is far beyond what most participants were able to deal with... We're throwing tons of money away trying to teach participants how to become skilled investors ... but it just hasn't worked... I would blow up the system and restart with something totally different."* (Mr. Benna and Dr. Frankenstein had similar qualms about their creations.)

Benna says he watched Wall Street and Big Business over the years pervert the 401(k) in ways he couldn't possibly predict. In a more recent interview, Ted Benna discussed three reasons why we should be distrustful of *both* 401(k)s and IRAs:

- Wall Street has hijacked these plans, and the **excessive fees** charged by mutual fund companies and plan administrators **rob you of up to half of your nest egg** (more on this in a bit).
- Benna believes a stock and bond market crash is imminent and *could wipe out 40%* of the typical portfolio.
- The government may repeal the 401(k) and IRA, so you won't be able to put any more money pre-tax into these accounts, or the amount you can put in will be drastically reduced (Congress considers doing this every few years!).

Spoiler Alert! The vehicle Ted Benna says he now uses for most of his *own* nest egg is the same strategy I'll show you in this book!

As labor economist and nationally recognized retirement security expert Professor Teresa Ghilarducci noted, "We've run the [401(k)] experiment for 40 years. We pronounce it a failure."

Wait a minute! Haven't we been told repeatedly that 401(k)s and IRAs are the best way to save for a comfortable retirement? Doesn't our government legislate and bless those plans and even allow us to defer paying taxes on our contributions? (At least under current tax law.) Our employers set them up for us and often even give us matching funds when we contribute. What's not to like about matching funds? It *must* be good for us, right?

When Free Money Isn't Really Free

That employer match is almost irresistible, isn't it? It's like Santa filling your stocking because you've been a good little girl or boy. But is your employer really that generous?

The Center for Retirement Research did a study revealing that for every dollar an employer contributes to your 401(k) match, they pay *90 cents less* in salary to men and *99 cents less* to women on average. Translation: For every matching dollar you're given, you *really* only receive 10 cents or less in total compensation. Plus, you don't even get all your employer matches until you're "vested," usually after 4 to 6 years on the job. If you leave your job or get laid off before then, you typically don't get the full match—and in some companies, you lose it all! But here's a fun fact: According to the Bureau of Labor Statistics, the average time people stay on the job is *barely four years*!

So, you're actually netting *pennies*, not dollars, in matching funds, *plus* you'll lose some or all of this pittance if you don't stick around longer than the average worker. That match is sounding more and more like a lump of coal.

So, you're really netting pennies, not dollars, in matching funds *plus* you'll lose some or all of this pittance if you don't stick around longer than the average worker.

In 401(k) plans, your company administers the plan, makes its match (when times are good), and then washes its hands regarding the outcome. Your employer offers you a plan and—thanks to a law Congress passed—often invests your retirement funds *without* your permission. Oh, and then, if those investments tank, in most cases, your employer can't be held responsible. Hmmm. It doesn't sound quite so good, does it?

Today's government-approved retirement plans offer absolutely *no guarantees*. Okay, that's not exactly true. *They guarantee that brokers, mutual fund managers, and fat cats on Wall Street will always make money, no matter how much you lose! So, someone is always making money. That somebody just doesn't happen to be you.*

For many participants, the plans that started replacing pension plans after 1978 have been less effective than stuffing cash in a mattress. Thanks to this shift from guaranteed company pensions to "do-it-yourself" 401(k)s and IRAs, the responsibility for saving enough for retirement has shifted squarely onto your shoulders. So, how's that working out?

- The typical household nearing retirement has an average of only $185,000 in their combined retirement accounts, according to the Federal Reserve Survey of Consumer Finances. That will provide, at most, $800 per month of income. Not even enough money to cover groceries, let alone health care, heating, transportation, and other necessities.
- Nearly *half* of U.S. households risk not having enough money to make ends meet in retirement—*even* if they cut back spending to just 75% of pre-retirement levels (2023 National Retirement Risk Index).
- The average 65-year-old will **outlive their savings by almost a decade**, according to a White Paper by the World Economic Forum [*Investing in (and for) our Future*].

And those folks are the fortunate ones. Only 46% of pre-retirees aged 60-64 have at least $1,000 saved in retirement accounts. And only 50% have $10,000 or more, according to the 2023 Federal Reserve Survey of Consumer Finances. Somebody hit it on the head when he observed, "*I have enough money to live comfortably for the rest of my life—if I die by next Tuesday!*"

"But I'm Doing Better Than That"

Maybe these statistics don't reflect you. Perhaps you've been serious and committed to planning for retirement. Good for you! On average, the top 10% of wage earners have saved about two years' worth of income. Maybe you've done well and have put together $1 million or more for retirement—woohoo! Let's ignore the uncertainty of the market for a minute and pretend that money will remain safe and sound until you retire and throughout your retirement (and if you close your eyes, maybe fairies will come and clean your house, pay your bills, and mow the lawn as well).

Have you calculated how many years your retirement money will have to last you? Remember when I mentioned that your life in retirement will likely last much longer than you thought? A 65-year-old man today can expect to live until he's 84.2 on average, and a 65-year-old woman can expect to live until 86.8 on average. One out of four 65-year-olds today will live past 90. One out of 10 will even live past 95, according to the Social Security Administration. This means you need to plan on your money lasting you until *at least* age 95 or 100 to be safe, just in case you're one of the lucky ones. And if you're well-educated or affluent, statistics show you'll live even longer than the average.

Yet many financial planners use age 85 when calculating how much money you'll need in retirement. (They probably assume you plan on moving in with your grandchildren and eating Top Ramen for breakfast, lunch, and dinner after that age.)

And let's say that you're calculating what you'll be able to spend using the "4% rule," which was the recommended withdrawal rate for years. This rule said that retirees could take 4% out of their retirement accounts each year. Unfortunately, in recent years, the 4% rule has been found to give you *only a 50% probability* of not running out of money over 30 years, according to a Morningstar study! (I don't know about you, but I wouldn't be too eager to get on a plane with only a 50% chance of landing safely!)

That study found the *current* recommended annual withdrawal rate is *just 2.8%*, giving you a 90% probability of having your money last for 30 years. (Not perfect, but a lot better odds, right?) Withdrawing any more than 2.8% means increasing the odds that you will outlive your money. So, let's take a closer look at what a withdrawal rate of 2.8% looks like. A $1 million nest egg would provide you only $28,000 a year or

$2,333/month. A $500,000 nest egg would give you $14,000 a year or $1,166/month. And if you have $200,000 saved (which is more than the average household nearing retirement has), you could withdraw $5,600 per year or *just $467 per month*.

Think about it: When you hit retirement, what kind of lifestyle will you have on $5,600, $14,000, or $28,000 per year? Does that even cover basic expenses? Will you need a greeter job at Wal-Mart—grinning at strangers for $14.74 per hour—to get by?

And here's the scary part: That money will *have to* cover more than just basic expenses. Here's why...

Healthcare Costs Not Covered by Medicare in Retirement

According to a Fidelity study, a 65-year-old couple retiring now will need $315,000 for out-of-pocket health care expenses not covered by Medicare. And at least 70% of people over age 65 will require long-term care, with more than 40% needing nursing home care at some point. If you or your spouse require a stay in a nursing home, according to Genworth, the average cost for a typical nursing home stay—which is 2 1/2 years—is about $250,000! And Medicare does *not cover* these expenses either.

Translation: The typical retired couple may need $565,000 or more *just* to cover their medical costs—*three times more* than the typical couple approaching retirement has saved! As I said, your retirement will likely cost far more than you planned for.

The typical retired couple may need $565,000 or more just to cover their medical costs.

Okay, but say you are the epitome of health. Dr. Oz calls you for diet advice, and you plan to compete in the Iron Man when you're 89. Your plan is: healthy > healthy > healthy > dead. It sounds like a good plan, but a few things will eat away at your precious retirement funds that you can't avoid, like...

Inflation Takes Its Cut

The inflation rate was 1.9% for the year 2018, according to the U.S. Labor Department. Those were the good ol' days, right? In 2021, annual inflation had heated up to 7%. By 2023, it had cooled down to 3.9%; today, prices are still going up, as consumers are painfully aware; they're just not going up as fast. And even relatively low inflation rates eat away at the value of your retirement savings.

Scary fact: If inflation averages *just 3%* per year, it will swallow *more than $117,000* of the average Social Security benefit over 20 years, according to the LIMRA Secure Retirement Institute!

And who knows where inflation is headed? In the 100 years from 1913 to 2013, inflation averaged 3.22% a year, so many financial planners use a 3% figure when making projections. It doesn't sound like much, but a 3% annual inflation will deplete the purchasing power of your dollars by *more than half* over 25 years! In other words, whatever your cost of living is right now, you need to *double it* when projecting down the road. No wonder only 17% of Americans are very confident they can maintain a comfortable lifestyle in retirement, according to a 2023 survey by the Transamerica Center for Retirement Studies.

How Much Money Do You Really Need in Retirement?

One guideline that is often cited is the "Rule of 25." The Rule of 25 says you should multiply your total annual expenses by 25 to determine how much you'll need to save by retirement. (Please note that I said "saved," not plunked down in the Wall Street Casino!) So, if you plan to spend $50,000 annually in retirement, you'll need to save $1.25 million. To spend $100,000 per year, you'll need $2.5 million; if you want to live on $150,000 a year, you'll need $3.75 million saved. If your number is $250,000 a year, you need $6.25 million. (Not to assume, but I'm guessing your retirement fund isn't there yet.)

How many times your annual expenses have you saved? Are you confident that your retirement nest egg will allow you to enjoy retirement on *your* terms without constant financial stress? Will you be able to travel? Spend more time with family and friends? Pursue your hobbies, develop your talents, do volunteer work—and live out your dreams for retirement?

According to a study by the Stanford Center on Longevity, people must save between 10% and 17% of their income if they plan to retire at 65, even if they start at age 25. Still, the vast majority put away only 6-8% of their income. That's only *half* of what they should be saving. What percent of your household income are you saving? It's important to be brutally honest with yourself because a shortfall of the magnitude most Americans will experience means more than being unable to live the retirement lifestyle you dreamed of. It may mean…

- Being forced to choose between putting food on the table or getting the medical care you need
- Not being able to afford to pay for heating and air conditioning
- Having to rely on the charity of your children
- Skipping travel and even life's little luxuries (like cable TV or your cell phone)

I doubt you worked hard all your life so that you can scrimp and struggle just to get by in retirement.

Couldn't You Just Retire Later?

When faced with these dismal statistics about retirement, many people try to accept that they won't be able to retire when they had planned. "Hey, I enjoy my career, or at least I'm okay with it. I'll just keep working for a few more years—or forever." Unfortunately, according to the Employee Benefit Research Institute, **almost half of all retirees are forced out of work earlier than planned due to layoffs, poor health, or the need to care for a loved one.** Working longer may not be a backup plan you can count on, even if you're okay with a job where you ask, "And would you like fries with that?" a hundred times a day.

Okay, even I'm getting a headache thinking about all this. But I want to tell you that you can take charge of your financial well-being in retirement. You can take back control of your finances and your retirement security by simply avoiding these five wealth-killing traps of conventional retirement plans:

1. They are **totally unpredictable**, so you have *no idea* what you'll actually end up with for your retirement.
2. You have **little to no control** over them.
3. Your money in conventional plans is in prison, giving you **little to no access**.
4. The ultimate **tax consequences** are frightening—and if you make $50,000 per year or more, the IRS has slapped a giant target on your back, as I'll explain soon.
5. And last (but unfortunately not least), the **fees and expenses** of 401(k)s, IRAs, and Roth plans will erode your retirement funds by 25-50%.

Grab a couple of aspirin if needed, and let's get educated about these five traps. But first, I'll briefly introduce an option that can be your saving grace. It's one you probably don't know about—or you have many misconceptions about. But as you'll soon discover, this option has NONE of the traps of conventional plans.

CHAPTER TWO

You Can Bank On Yourself

"Just cuz you're following a well-marked trail doesn't mean that whoever made it knew where they were goin."

—TEXAS BIX BENDER

LET ME ask you, are you willing to see things differently? Are you willing to absorb the stats, validate the research, do your homework, and see if the conventional financial wisdom you've followed may be flawed? Are you willing to entertain the possibility that there might be a solid, time-tested strategy that few financial gurus will acknowledge but that hundreds of thousands of people like you are using successfully? (I was willing, so now I'm among those hundreds of thousands!)

I've Been There and Done That, Too

I'm guessing that my story isn't much different from yours. I worked hard, and though I can't say I was always perfect in handling my money, I knew I needed to prepare for retirement. After I met my husband, Larry, we started investing in various financial products and strategies. We read the literature and listened to the "experts," but somehow, we *never* came close to getting the returns we were told we *should* be able to get.

At one point, we figured the problem must be us. Maybe we simply didn't have the Midas touch when it came to investing. So we ultimately ended up hiring three extremely well-paid (by us) experts—and all three of them *lost* us money during one of the longest-running bull markets in history! None of those three had "the touch" either!

But we didn't give up and start stuffing our retirement savings into a mattress. I was coaching thousands of financial advisors on building their businesses, so I had access to many financial vehicles. I burned the midnight oil for years, investigating *more than 450* financial products, strategies, and vehicles. In the end, only a few passed my due diligence tests—and when we implemented them, even those were disappointments.

Finally, one of my financial advisor clients said, "Pamela, have you ever heard about this?" This turned out to be a little-known super-charged version of a financial asset that's increased in value every single year for more than 160 years: **dividend-paying whole life insurance**.

Now you may be ready to throw this book in the trash! But hold on. Don't tune me out because this is *nothing* like the whole life insurance policies Suze Orman, Dave Ramsey, and most financial advisors love to hate.

Properly structured, the high cash value, dividend-paying whole life insurance policies I'll show you grow cash value *significantly faster* than the ones most financial advisors talk about, especially in the early years. They pay the advisor or insurance agent *50-70% less commission*. And you can use them as a powerful financial-management tool right from the start to reach your short-term and long-term financial goals and dreams—without taking *any* unnecessary risks.

Remember the Father of the 401(k), Ted Benna, who called his creation a "monster"? Benna recently revealed that he now puts most of his money in—yep, you caught the clue—**high cash-value dividend-paying whole life insurance**.

I'll give you an overview of how it works in this chapter. I've written two New York Times bestsellers about it if you want to go deeper. The most recent and comprehensive one is called *The Bank On Yourself Revolution: Fire Your Banker, Bypass Wall Street*, *and Take Control of Your Own Financial Future*.

Folks who've joined the Bank On Yourself "revolution" aren't crazy radicals or wide-eyed optimists looking for a miracle to save them. They are just folks of all ages and all income levels who became tired of doing "all the right things" financially yet still had to worry about when the next market crash would scuttle their best-laid plans. They decided enough was enough and stopped acting like lemmings, putting all their money into financial vehicles they couldn't predict or count on.

They chose to take control of their financial futures.

They put less money into their 401(k)s and IRAs, and some stopped funding them altogether. They pulled back on their mutual funds and stocks and bonds. They stopped letting the capriciousness of Wall Street and the seductive advice of financial "gurus" threaten their future financial wellbeing.

Instead, they built a solid financial foundation. These folks opted for a high-performing version of a financial vehicle that has survived and thrived *every* year for more than 160 years—through *every* recession, pandemic, boom, and bust, *including the Great Depression*. Because they did so, these folks could now move forward without the stress, worry, and uncertainty they had lived with in the past.

Hundreds of thousands of people who have embraced the Bank On Yourself method have seen their money grow safely and predictably *every* year—even when the markets are tumbling. They can finally get a good night's sleep knowing:

- Their policies don't skip a beat when the stock or real estate markets crash.
- They don't gamble on Wall Street to accumulate a sizable nest egg. They don't have to worry about when the next crash might come and wipe out their life savings again.
- They can tell banks and finance and credit card companies to take a hike and have access to the money they need, whenever and for whatever they need, without begging for it or penalties or delays.
- They don't need to depend on their employer or the government for their financial security.
- They don't have to worry about nasty surprises in penalties and taxes when they want to access their retirement funds.

Bank On Yourself isn't a get-rich-quick scheme, requiring some patience. But the rewards for that patience are substantial.

I wish I could say I'm the genius who invented this strategy, but I can't. It had started way before I learned about the financial tool and concept I call "Bank On Yourself." And I decided to call it Bank On Yourself because it lets people free themselves from economic slavery and move toward freedom and economic sanity. It allows them to stop depending on the government, Wall Street, banks, and finance companies for their financial needs and security. Bank On Yourself folks *bank on themselves* by using good judgment and good sense to keep their families financially secure—rather than relying on the mercy of faceless institutions.

What amazed me then—and amazes me still—is how few people were aware of this tool and how many myths and misconceptions there are about it. It became my mission to help educate others about Bank On Yourself so they could take back control.

How Are Bank On Yourself-Type Policies Different Than Other Whole Life Policies?

You're not alone if you have a knee-jerk negative reaction to whole life insurance. Celebrity financial gurus (and probably your own financial advisor) have told you to avoid whole life insurance at all costs. But the high cash-value, low-commission, dividend-paying whole life insurance life policies used for the Bank On Yourself method are *dramatically different* from run-of-the-mill whole life policies. Financial advisors' objections to whole life simply don't apply to Bank On Yourself-type policies. Here are just four of those objections and why they don't apply to Bank On Yourself policies:

1. Financial pundits claim that the money you can access in the plan—your cash value—grows much too slowly in a whole life policy. They say you typically won't have any cash value in the first few years.

That's true for some whole life policies. However, a Bank On Yourself-type high cash-value dividend-paying whole life insurance policy incorporates little-known riders or options that *dramatically accelerate* the growth of your money in the policy, especially in the early years. Adding these riders, or options, allows you to use your policy as a powerful financial management tool from day one.

2. Celebrity financial gurus say one reason for the slow growth in cash value in a traditional whole life policy is the high commissions paid to the insurance advisors who sell them. Again, this is true for some other policies. But when a qualified financial professional structures a Bank On Yourself-type high cash-value dividend-paying whole life insurance policy for you, they receive *50-70% less commission* because much of your premium is directed into the riders that make your cash value grow significantly faster.

Unfortunately, many financial advisors and insurance agents aren't willing to take a 50% or more pay cut. They will steer you towards a product or strategy that's more profitable to them. People were having such a hard time finding a financial professional willing to take a significant cut in commission and who truly understood how to structure these policies correctly that it led to the creation of a program to train and vet advisors on the Bank On Yourself concept. The Bank On Yourself Professional training program is sponsored by a separate company (in which I have no ownership) chosen for its outstanding history in training financial professionals to help their clients reach their financial goals through the use of guaranteed permanent life insurance and annuities. Admissions requirements for this program are high, and only one out of every 20 who apply is accepted into the program.

Today, there are 200 Bank On Yourself Professionals in the U.S. and Canada who have advanced training in the concept and the proper way to structure policies to your benefit. To get a referral to one of these Professionals who can structure your policy to maximize your cash value and know which companies have the best policies for this strategy, go to www.BankOnYourself.com/free-analysis.

3. Many financial experts and advisors only discuss whole life policies in which the death benefit stays level for the life of the policy. But the fact is that level death benefit policies have become rare in the last couple of decades.

In a dividend-paying whole life insurance policy, dividends you receive can be left in the policy to purchase additional coverage while at the same time growing your cash value in the most efficient way possible. A Bank On Yourself-type policy incorporates two riders or options that result in a much larger cash value *and* death benefit over time than a traditional whole life policy. To learn more about how this works, go to www.BankOnYourself.com/design.

4. The financial experts often complain that the insurance company "only pays you the death benefit and keeps your cash value" when the policy owner dies. Really? Then how do you explain this: In one of my policy statements posted at www.BankOnYourself.com/policy-statement, you can see that if

I'd died on the date the statement was issued, my family would have received a check for $381,776, which is a few thousand dollars *more* than the original $250,000 death benefit plus the then-current total cash value ($128,361) *combined*.

Incredibly, many financial advisors hold whole life insurance to a *different* (and higher) standard than *any* other financial vehicle. For example, if you have $100,000 of equity in your home and sell it for $250,000, do you expect to receive *both* amounts for a total of $350,000? Of course not.

However, as I've just shown you, a Bank On Yourself-type policy can even deliver that advantage!

Dividend-Paying Whole Life Insurance as a Safe Wealth-Building Vehicle

When we think of saving, we typically think of a bank savings account, a CD, or a money market account, not whole life insurance. But as economist Jesús Huerta de Soto noted in his book *Money, Bank Credit and Economic Cycles*:

> "The institution of life insurance ... is based on a series of technical, actuarial, financial and juridical principles of business behavior which have enabled it to perform its mission perfectly and survive economic crises and recessions which other institutions, especially banking, have been unable to overcome. Therefore the high 'financial death rate' of banks, which systematically suspend payments and fail without the support of the central bank, has historically contrasted with the health and technical solvency of life insurance companies. (In the last 200 years, a negligible number of life insurance companies have disappeared due to financial difficulties.)"

With Bank On Yourself-type policies, you receive a guaranteed and predictable cash value increase *every* single year—in both good times and bad. And that's the *worst*-case scenario. In addition, you have the potential to receive dividends. While not guaranteed, the companies preferred by Bank On Yourself Professionals have *paid dividends every year for more than 100 years*, including during the Great Depression.

These policies are designed so that the growth gets better every year, giving you some built-in protection against inflation. Plus, your premium is guaranteed *never* to increase.

But what about that timeworn adage that you should "buy term and invest the difference"? That might seem to be a good strategy except that, as David Babbel, Emeritus Professor at The Wharton School, notes, "People don't buy term insurance and invest the difference. They most likely rent the term, lapse it, and spend the difference."

For most of us, the whole life insurance scorned by financial pundits proves safer and smarter—*if* you pick the right policy. Be warned: Not all cash-value life insurance policies are created equal. Some of them, such as universal and indexed universal life, can be dangerous to your financial health. For example, Indexed Universal Life (IUL) has been the "hot" life insurance product making the rounds over the past decade. If someone tries to sell you one of these policies, I urge you to read "*7 Reasons to Be Wary of Indexed Universal Life*" at **www.BankOnYourself.com/be-wary**.

These relatively new products are designed to sound like a sexy, can't-lose alternative to the stock market, but they do not give you the same guarantees whole life insurance gives. Lawsuits have been filed against companies that sell these products, and you can expect more over time. Do your due diligence, and don't jump from the frying pan into the fire. No other form of permanent or cash value life insurance comes with as many guarantees as whole life insurance.

No other form of permanent or cash value life insurance comes with as many guarantees as whole life insurance.

"How Can I Be Sure the Companies That Issue These Whole Life Policies Will Deliver on Their Promises?"

The companies Bank On Yourself Professionals recommend are among the country's financially strongest life insurance groups. In essence, they're owned by the policy owners, which means these companies *focus on the long-term best interests of the policy owners (you!) rather than the short-term demands of Wall Street*.

Here's the difference between dividend-paying whole life insurance policies as a wealth-building vehicle and most other products and strategies the financial gurus favor: On the freeway, can you spot the difference between a teenager putting daddy's hot sports car through its paces and a young suburban mom in her minivan taking two kids to soccer practice with a toddler buckled in a car seat? One driver is trying to get somewhere fast, while the other is getting to her destination while doing everything possible to protect those who are near and dear to her. If you understand that difference, you'll understand the difference between the Wall Street Casino and the life insurance industry.

While guarantees are based on the claims-paying ability of the insurers, many people don't realize that life insurance companies are strictly regulated and enjoy a four-layer safety net:

1. They're audited regularly by the state insurance commissioner's office (sometimes by *dozens* of different states) to ensure they maintain sufficient reserves to pay future claims and are on solid financial ground.
2. If a company gets into financial difficulty, the state insurance commissioner's office can take over and run the company in

the interests of policyholders. (Historically, a failed insurer's business is then taken over by another company, according to the National Organization of Life and Health Insurance Guaranty Associations.)

3. Most insurance companies are audited regularly by several independent rating companies.

4. Additional policy owner protections are available on a state-by-state basis. For example, in one annual policy statement I received, there was a notice regarding the various protections provided by the Insurance Guaranty Association of New Mexico, where I live.

In addition to these layers of protection, life insurance companies (especially those owned by their policyowners) are simply run *differently*. Remember that mom driving the minivan versus the kid in the hot sports car? These companies aren't trying to be flashy or grab short-term profits wherever they can. Their mission is to get you and your family to your destination safely.

More Facts of Life (Insurance)

• **Meets safe capital requirements**: Banks are legally required to have a foundation of very safe liquid assets, known as Tier 1 capital. Life insurance is so safe that bank regulators allow banks to use life insurance policies to meet their Tier 1 capital requirements. In fact, according to data provided by BoliColi, the nation's banks owned guaranteed, permanent life insurance with a cash value of approximately $184.6 billion as of June 30, 2023.

• **Diversified low-risk investments**: Most of their portfolios are invested in investment-grade fixed-income assets in the companies recommended by Bank On Yourself Professionals. Their bond portfolios are highly diversified across many industries and companies, and typically, no investment represents more than 2% of assets. Less than 2% is usually invested in U.S. Treasury or other government debt.

Due to their financial strength and reserves, these companies can hold on to any assets that may decline in value for many years until those assets recover.

• **Source of capital, even in tough times**: Life insurance cash values provide available capital to individuals, families, and businesses—even when credit is difficult to obtain. Policyholders can use this money for *any* purpose they choose with no restrictions whatsoever.

• **Bedrock of our grandparents' savings plans**: Back in 1900, *half* of all Americans' savings were held in life insurance and annuities. And fully *one-third of families* owned whole life insurance policies in 1950.

• **Help great businesses succeed**: Many famous people have used life insurance policy loans to start or grow their businesses. Following the 1929 stock market crash, retailer J. C. Penney borrowed against his life insurance policies to help meet the company payroll and keep the doors open.

Walt Disney borrowed from his life insurance policy in 1953 to help fund Disneyland when the Disney Board rejected the concept, saying it was a crazy idea that would never be profitable. Ray Kroc of McDonald's initially had constant cash flow problems, so he borrowed from his policies to cover salaries and pay for the Ronald McDonald advertising campaign. (Can you imagine a world without those Golden Arches everywhere?)

Doris Christopher started Pampered Chef with $3,000 she borrowed from her life insurance policy and ended up selling the company to Warren Buffett for a reported $1.5 billion. And Max and Verda Foster borrowed $1,000 against their life insurance policy to buy an eighty-acre farm near Modesto, CA, to begin Foster Farms.

In 2009, when banks had their money on lock-down, I was able to get my hands on $500,000 for a business opportunity, and it was in my checking account within a week—*no questions asked*—thanks to the ability to borrow against my whole life insurance policies!

"But Won't I Miss Out When the Market is Hot?"

If you're into horror movies and high-speed, no-hands roller coaster rides when it comes to your finances, Bank On Yourself may not be for you. To some people, the safe and predictable growth of Bank On Yourself isn't very sexy. (To folks like me, the financial peace of mind it brings is an unparalleled aphrodisiac!)

When you Bank On Yourself, you may feel left out when your friends start bragging about the killing they're making in the latest hot investment—real estate, tech or oil stocks, commodities, crypto-currency, gold, or ostrich farms. You might miss out on the thrill of chasing returns and trying to anticipate the exact perfect timing to buy or sell that juicy investment. Bank On Yourself is about building a solid financial foundation and a secure future—no matter *what's* happening in the markets or the economy. It's the minivan, not the sports car! You're not going to experience thrilling spikes—but you're also not going to get hit with those unpredictable, heart-stopping losses that inevitably follow!

And the growth of your money in a Bank On Yourself policy is not just "on paper" the way investments are. Your friend who's bragging about how much money he's making in the stock market? He hasn't made a dime until he *sells* his investments and (hopefully!) locks in his profits. That neighbor who's so excited that her rental property has appreciated by 20%? Until she sells it, she hasn't made squat. And those investors who bought Bitcoin? It's famously susceptible to dramatic rises followed by equally rapid falls. At one point, it plunged by 50% in just four months. As I write this, Bitcoin's value is rising again, but will it become another fake-out for investors? Those paper profits may make for a nice temporary high, but they aren't real until they are *realized.*

...the growth of your money in a Bank On Yourself policy is not just "on paper" the way investments are.

In contrast, when you look at the annual statement for your Bank On Yourself policy or check your policy values online, the numbers you see represent *real money*, not just paper wealth. Both your principle *and* growth are **locked in**. They don't go backward, even in a market crash.

If you need or want that occasional investment high, remember that Bank On Yourself isn't an either/or proposition. When you own a Bank On Yourself-type policy and want to take advantage of an investment opportunity, you can borrow against your policy's equity (cash value). You'll continue to get the *same* guaranteed annual increase, *plus* the same dividends on the money you borrowed, which means your money can work for you in two places at once—if your policy is from one of the companies offering this feature. (However, if your investment tanks and you can't pay back the loan, or at least its interest, your policy might lapse, which could result in an income tax liability on any gains. So be cautious about using your *safe* money for *risky* investments!)

Caution: Not all companies offer a whole life policy with the feature that pays you the exact same dividends even on the money you borrowed. That's why we always recommend that you work with a Bank On Yourself Professional who knows how to structure your policy for maximum growth and which companies offer the policies that let you take full advantage of this concept.

Only a handful of companies offer policies with *all* the features needed to maximize the Bank On Yourself concept. To get a referral to a qualified Bank On Yourself Professional who knows which companies have the best policies, is willing to take a lower commission, and knows how to structure your policy to maximize your growth, go to **www.BankOnYourself.com/free-analysis**.

The critical point is that having money safe and liquid in a Bank On Yourself-type policy gives you *more* options, not fewer.

I could give you tons more detail about Bank On Yourself, but I promised to keep this book brief.

Now that you have an overview let's get back to those five wealth-killing retirement plan traps you want to avoid—unpredictability, little or no control, lack of access to your money, the future tax time bomb, and high fees and expenses—and let's compare Bank On Yourself-type high cash value dividend-paying whole life policies to conventional retirement plans.

How to Reach Your Financial Goals and Dreams in the Shortest Time Possible – Without Taking Any Unnecessary Risks

The Bank On Yourself strategy comes with an *unbeatable* combination of advantages, including:

- Guaranteed, predictable growth *every* year – *even* when the markets are crashing
- It's a supercharged variation of an asset that has **never** had a losing year in more than 160 years
- Liquidity and control of your money – get access to it *when* and for *whatever you* want, *no* questions asked
- It's backed by a multi-layer safety net
- It comes with *numerous* tax advantages, including tax-deferred growth and **tax-free withdrawals**, under current tax law
- You benefit from the magic of *compounding returns*, rather than having your nest egg severely eroded by the tyranny of *compounding costs*

It's possible to rescue your retirement savings strategy and have confidence you'll be able to enjoy the retirement lifestyle you hoped for. It's easy to find out what your bottom-line numbers and results could be if you added the Bank On Yourself safe wealth-building method to your financial plan. Just request a free, no-obligation Analysis. Do it *today*, and you could soon be enjoying an *unprecedented level* of financial security and peace of mind.

Go to **www.BankOnYourself.com/free-analysis**

About the Author

Financial security expert Pamela Yellen investigated more than 450 savings and retirement planning products and strategies seeking an alternative to the risk and volatility of stocks and other investments. Her research led her to a time-tested, predictable method of growing and protecting wealth now used by more than half a million people. Pamela has written two ***New York Times*** best-selling books.

Pamela has appeared on every major TV and radio network and served as a source for thousands of organizations and publications, such as the Associated Press, Fox News, *Bloomberg Businessweek, Aging Today*, and AARP.

Pamela was born in Buffalo, New York, and has lived in Sarasota, Phoenix, and the San Francisco Bay area. She graduated from the University of San Francisco with a degree in psychology. Pamela and her husband, Larry, live outside Santa Fe, New Mexico. They enjoy theatre and the arts, hiking, jazz, rock-and-roll music, bird watching, traveling, gourmet cooking, working out, reading, and supporting numerous charitable causes.

To learn more about proven, safe wealth-building and guaranteed lifetime income strategies, go to:

www.BankOnYourself.com.