THE SECRETS TO UNLOCKING YOUR RETIREMENT INCOME

THE ULTIMATE GUIDE TO RETIREMENT INCOME

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The Ultimate Guide to Retirement Income

Do you have an estimated budget for your retirement?

Have you thought about how you're going to pay for it?

Do you know how to make the money you'll need for retirement?

These can be anxious inquiries that are frequently postponed and unaddressed for an excessive amount of time for many present and upcoming retirees.

We assist our clients in a variety of ways, but one of the most crucial is assisting them in finding the answers to the aforementioned questions and achieving their retirement objectives. In an effort to assist you in determining the fundamental retirement questions for yourself, we have produced this guide.

Why did we pay for and distribute this guide?

Whether you end up becoming a client or not, we've discovered that educating you is beneficial to our business.

What Are Your Retirement Goals?

What are your retirement plans? Enjoy playing golf? Travel? Maybe you'd like to spend more time with the grandkids? Perhaps you'll continue working, but only for amusement?

A persons' preferences on how they wish to spend their retirement years are incredibly diverse. But from a financial standpoint, we've seen that the majority of people are working toward one (or frequently more) of the following four objectives. And it's crucial that you determine your retirement goals before concentrating on anything else.

Avoid running out of money?

For many this is their number one goal— and their number one retirement fear. Being forced to turn to your children—or go back to work—during retirement is a source of anxiety for many current and future retirees. Many folks think the key to achieving this goal is very low-volatility investments (e.g., Treasury bonds), but as we will discuss, this is not always the case.

Maintain or improve lifestyle?

Most people have worked hard for their retirement and want to enjoy it. As such, a common goal for many of our clients is to maintain-or better yet,improve-their lifestyle during retirement. The key here is to maintain or grow purchasing power over time-this requires income growth to offset the malicious impact of inflation.

Increase wealth?

Many people can easily live the retirement lifestyle of their choice without worrying about running out of money. These fortunate people often want to increase their over the long term in order to leave a legacy—whether it is for their children, grandchildren, or a charitable organization. Unsurprisingly, the majority of people who have this ambition approach their investments with a growth-oriented mindset.

Spend every cent?

Although it's not a common objective among our clients, some people believe that success is spending all of their money before they pass away. But doing this can be problematic because it's impossible to predict how long your retirement will last, and those who try it might run out of money sooner than they expect.

Before you focus on anything else, figure out which of these goals are most important to you. You can't figure out how to get there if you don't know where you are going!

How Much Will Retirement Cost?

You can begin to estimate how much your retirement will cost once you have determined your retirement goals. Non-discretionary spending, discretionary spending, inflation, and your investing time horizon are the four things to think about (e.g., life expectancy).

Non-Discretionary Spending

This is the type of spending that you have little control over. Although there may be some leeway, you can't really escape these expenses.

Cost of Living: How much does it cost you on a daily basis to sustain your way of life? Everything from groceries to gas to the heating cost should be taken into account. If you don't intend to relocate in retirement, you probably already have a fair sense of what these costs will be.

Debt: This can be credit card debt, your mortgage or car loans. Anything you owe needs to be accounted for when mapping out your expenses because you'll have to continue to pay down the principal and make periodic interest payments.

Taxes: While taxes are often lower for retirees as they shift from salaried income to capital-gains rates, the government certainly still wants its cut. You may benefit from implementing a strategy to settle your tax bill each year.

Insurance and Health Care: The expense of health care has historically increased faster than the rate of inflation, and for many investors, it now represents a larger portion of their retirement budget. Insurance payments and other situations that can necessitate sizeable payments on short notice must be taken into consideration.

Discretionary Spending

Once you get past basic living expenses, you have to account for discretionary spending. Discretionary spending is subject to your personal situation. You may view cable TV as discretionary, but golf as a required, non-discretionary expense. This is just an example, but the takeaway is if you have a hobby or other expense you can't imagine living without, you'll need to include it in your non-discretionary expenses. Below are some of the more common discretionary line items in retirees' budgets:

Travel: Many people anticipate taking vacations after retirement. This can entail taking extensive travels abroad or visiting the grandchildren. It may be wise to start setting aside money for that long- dreamed-of vacation right away.

Hobbies: Retirement is a great time to rekindle old hobbies or pick up new ones. Ready to finally get your fly casting down or finish researching your family history? Hobbies almost always incur some costs even if small.

Luxuries: This is somewhat dependent on your financial situation and idea of luxury. However, whether you enjoy drinking excellent wines or just getting coffee outside You'll need to include non-essential expenditures in your budget every morning.

Grandchildren and kids: For many, this The final category includes elements from each of the others.

Travel, opulent purchases, and your favorite hobby may all be necessary for your family at once. Consider how much cash flow you'll need to support it if you want to make your children and grandchildren a priority in your retirement and need a substantial budget to do so.

Inflation

Inflation is a problem. Over time, it erodes real savings and investment returns and lowers purchasing power. Many investors are unaware of how large of an impact inflation may have. Inflation has increased by around 3% year on average since 1925. † A individual who needs $50,000 to meet annual living expenditures now would need around $90,000 in 20 years and about $120,000 in 30 years merely to keep the same purchasing power if the current average inflation rate holds true.

Time Horizon

Given that most people are living longer than they anticipate, our investing time horizon is perhaps one of the most ignored elements among today's retirees and a significant influence in determining your entire retirement cost. Depending on your investment goals, your investment time horizon may be your life expectancy, the life expectancy of a partner who is younger, or a longer or shorter time horizon. According to their current ages, Americans can expect to live an average of the following table. We think that given continued medical breakthroughs, these predictions probably understate how long individuals will actually live. Remember that these are estimates of average life expectancy; preparing for the average is insufficient because approximately half of those in each category are anticipated to live much longer. Individual life expectancies might also differ greatly depending on factors including current health and heredity.

What's the verdict? You may have a far wider time horizon for your investments than you think. Make sure you have the resources necessary to support your way of life and become in shape to live a long time.

Average Life Expectancy*

Current Age	Life Expectancy
51	84
52	84
53	84
54	84
55	84
56	85
57	85
58	85
59	85
60	86

Current Age	Life Expectancy
61	84
62	84
63	84
64	84
65	84
66	85
67	85
68	85
69	85
70	86

Current Age	Life Expectancy
71	86
72	86
73	87
74	87
75	87
76	88
77	88
78	88
79	89
80	89

Current Age	Life Expectancy
81	90
82	90
83	90
84	91
85	92
86	92
87	93
88	93
89	94
90	95

Your objectives, financial requirements, and time horizon all affect how you should go about creating income in retirement. Let's now look at different methods you might use to obtain the required cash flow.

Source: FactSet, as of 4/14/2020. Inflation rate was 2.89% based on US BLS Consumer Price Index from 12/31/1925 to 12/31/2019. *Source: 2017 US Total Population Life Table (as of 03/13/2020), National Vital Statistics Reports, Volume 68, Number 4. Life expectancy rounded to nearest year.

How Will You Pay for Retirement?

You may start planning for how you're going to pay for retirement once you have an idea of how much it will cost. Without relying on your investments, we advise you to compute

Non-Investment Income

Salary: Will you continue to work after retirement? If so, you'll need to make an educated guess as to your expected compensation. For our purposes, only direct cash transfers from your employer to you should be taken into account; do not include earnings from company investments or partnerships.

Pension: If your workplace provides a pension, you should find out how much you may anticipate receiving on a regular basis. Will it grow or shrink with time? Keep in mind that 401(k) and IRA accounts are not pension plans. Instead, there are different kinds of accounts that include money you've invested throughout time and will be able to manage in retirement.

Social Security: You Determining when to take social security can significantly impact your retirement. A good place to start is to estimate future payments by using a free calculator* on the Social Security Administration's website. Once you've calculated your options, it may be beneficial to run those through financial planning software and work with an advisor to determine appropriate timing.

Business and Real Estate: It's possible to get non- investment income if you own a business or have investment property. These income streams are more sensitive to changes in the market compared to Social Security or a guaranteed pension. These will be important considerations when building your retirement income.

* http://www.socialsecurity.gov/OACT/anypia/index.html

Determining What You Need from Your Portfolio

Now that you've determined what your expenses are likely to be and how much non-investment income to expect, the worksheet below can help you put it all together.

INCOME		% of Total
Non-Investment Income		
Salary	$	%
Pension	$	%
Social Security	$	%
Business and Real Estate	$	%
Other	$	%
TOTAL INCOME:	$	%

EXPENSES		% of Total
Non-Discretionary Spending		
Basic Living	$	%
Mortgage	$	%
Credit Card Debt	$	%
Taxes	$	%
Insurance	$	%
Health Care	$	%
Non-Discretionary Subtotal	$	%

Discretionary Spending		
Travel	$	%
Hobbies	$	%
Luxuries	$	%
Gifts to Family/Charity	$	%
Other	$	%
Discretionary Subtotal	$	%

TOTAL EXPENSES: (add both Subtotals)	$	%

NET SAVINGS: (Subtract Total Expenses from Total Income)	$	%

Using Your Investments to Pay for Your Retirement

Monthly net surplus will be the sum of your total income less spending. If your monthly surplus is low (as it is for many wealthy retirees), you'll need greater cash flow from your investment portfolio to make sure you can pay all of your bills. The remainder of this manual mostly focuses on creating cash flow from your portfolio to fill this deficit. But first, we go through several key retirement investing tenets before moving on to specific techniques.

Income Vs. Cash Flow

It may appear to be a technical distinction, but the difference is an important one. Income is money received, and cash flow is money withdrawn. Dividends and bond coupon payments, for example, are considered income and must be reported as such on your tax returns. These are two completely acceptable sources of funding. However, if you rely solely on them, you may be shortchanging yourself. On the other hand, selling a security generates cash flow. When you sell a security, the difference between what you put in and what you take out is considered a capital gain (or loss).

It's worth noting that cash flow withdrawn from your portfolio isn't necessarily a bad thing—in fact, it can be a critical component of your overall retirement strategy.

Consider: If your $1,000,000 portfolio grew 10% last year and you realized $100,000 in annual gains, this is no different than if your portfolio grew 5% and paid $50,000 in dividends. On a pre-tax basis, the total return (capital gains + dividends) is the same; and, depending on your circumstances, selling a security and paying capital gains tax may be more tax-efficient than dividend income!

Bottom line: When it comes to saving for retirement, you should only be concerned with your portfolio's total return and after-tax cash flow, not whether it comes from selling securities or regular income. However, before you can generate income, you must first decide which assets will comprise your portfolio.

Tactically managing your investments in Retirement

The next step is to consider how you might manage the money that you've worked so hard to accumulate over your lifetime, your retirement. One big mistake that is often made when setting up retirement is NOT to change how your investments are managed. Commonly, one accumulates their retirement nest egg by contributing to a buy and hold type portfolio. Once its set up, it usually is forgotten, and changed sparingly, and the investment selections remain static in their mix. If you continue this practice after you retire, it could have a dramatic impact on your success or failure.

Research shows that during the withdrawal phase, a dynamic portfolio produced the highest initial safe withdrawal rate, the greatest probability of success, and consistently the highest terminal values when compared to buy and hold portfolios. The differences in terminal show to be quite considerable.

In conclusion, there is evidence that would show that a dynamic portfolio using asset allocation is a consistently better strategy over statically (buy and hold) allocated portfolios for investors in both the accumulation and withdrawal phases. This is specifically attractive once a person retires.

*Source: Journal of Financial Planning, February 2010 issue. A simple dynamic strategy for portfolios taking withdrawals: The case for using a 12-month simple moving average by Michael M. Garrison, CFP,; Carlos M. Sera:, and Jeffrey G. Cribbs, CFP

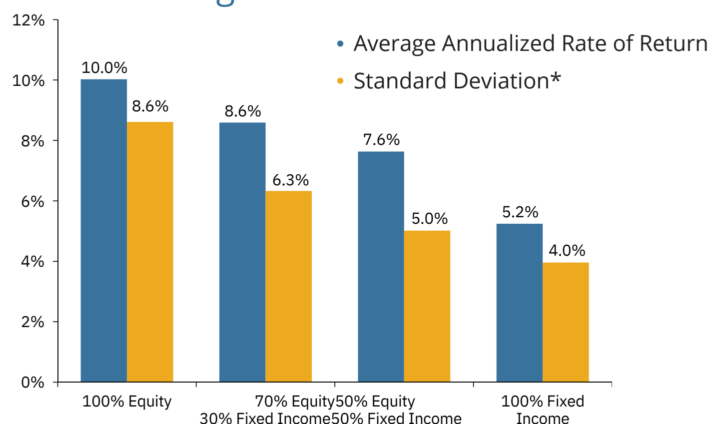
Asset Allocation

Asset allocation is the first and crucial step that will determine future portfolio returns and your likelihood of being able to afford the retirement you want. At its core, asset allocation is what you decide to invest in. When many people hear their asset allocation could determine if they run out ofz money or live comfortably, they instinctively want to play it safe. Fair enough, but most people actually get it backwards.

Bonds are commonly thought to be less risky than stocks. This is due to stocks' increased short-term volatility. As a result, retirees often seek to avoid volatility and play it safe may choose bonds, but they frequently overlook their return requirements. As shown in the charts below, including more fixed income in your portfolio reduces volatility (standard deviation), but also lowers returns over a five-year period.

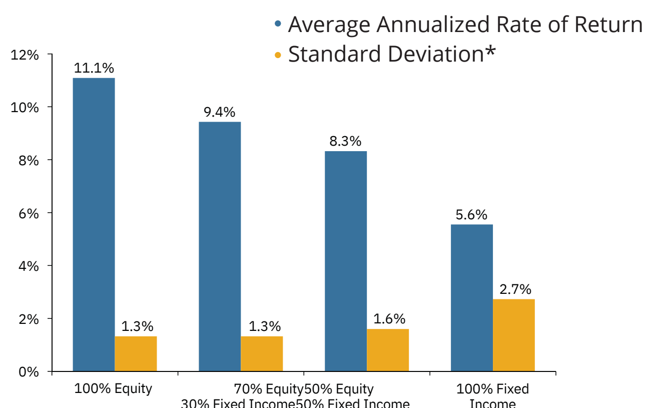
Over longer time periods, stocks can actually have lower volatility (standard deviation) than bonds. This means that if you have a longer time horizon or higher return requirements, stocks may need to account for a larger portion of your asset allocation than you previously thought. This is especially true when withdrawals are taken into account over the course of your retirement. Additionally, in periods of rising interest rates, bonds can have significantly more risk than you may have an appetite for. An astute advisor can help you manage these risks and tailor advice for your situation.

5-Year Rolling Periods



Opting for a drastically lower return isn't an option for many retirees and it's unlikely your time horizon is only five years. When we consider a more plausible time horizon, say 30 years, a different pattern emerges.

30-Year Rolling Periods



*Standard Deviation represents the degree of fluctuations in the historical returns. The risk measure is applied to 5- and 30-year annualized returns in the above charts. Source: Global Financial Data, as of 04/14/2020. Average rate of return from 12/31/1925 through 12/31/2019. Equity return based on Global Financial Data's S&P 500 Total Return Index. The S&P 500 Index is a capitalization-weighted, unmanaged index that measures 500 widely held US common stocks of leading companies in leading industries, representative of the broad US equity market. Fixed Income return based on Global Financial Data's USA 10-year Government Bond Total Return Index.

If you withdraw $50,000 from a $1,000,000 portfolio every year, you're more likely to deplete it if your rate of return is too low. To maintain your balance, you'd need a 5% total rate of return every year, plus inflation. If you're concerned about having safe investments, consider that you also could run a risk of running out of money due to a low rate of return over the lifetime of your investments. Working with an advisor can help you determine an appropriate portfolio mix and how to navigate this issue for your individual situation.

Next, we'll look at a problem that's just as serious as low returns: excessive withdrawals.

Risk of High Withdrawals

One common (but incorrect) assumption is that because equities have historically delivered a 10% annualized average return over the long term,* it must be safe to withdraw 10% without drawing down the principal. That could not be further from the truth. Despite the fact that markets may annualize around 10% over time, returns vary greatly from year to year. Miscalculated withdrawals during market downturns can significantly reduce your chances of retaining your principal. For example, if your portfolio is down 20% and you take a 10% distribution, you'll need a 39% gain just to get back to where you started. When you consider how damaging years of excessive withdrawals can be, it becomes clear how critical it is to properly manage your cash-flow expectations and discretionary spending.

Difficult Decisions

As you can see, investing necessitates choices, such as investing for larger profits in exchange for greater short-term volatility. You may also need to decide how to spend your retirement income as it is not an endless resource. Also, you could have costs that are significant to you personally, like paying for a grandchild's college tuition or planning a dream vacation with your spouse. However, you must be clear about what is affordable if you want to achieve your financial goals. Risking depleting your portfolio for discretionary expenses is not advised. This is not to imply that paying for education or taking a vacation should not be considered; rather, they should be realistically budgeted in light of your overall objectives, cash-flow requirements, and return expectations. Through some careful planning, perhaps you can do both or you may find it's necessary to pick just one.

It's also beneficial to be upfront about your budget with other stakeholders and yourself. When you start to count on your spending, emotions start to take over, and you can end up with a higher bill than you're comfortable with. Any time you subtract more than 5% from your portfolio, the likelihood that your assets will be exhausted is significantly increased. It's time to think about the investments you'll make in order to make money.

*Source: Global Financial Data, Inc.; as of 0/14/2020. Based on annualized S&P 500 Total Return Index returns from 12/31/1925- 12/31/2019.

Investment Income Sources

Bond Coupons

Countries, towns, businesses, and other entities that want to borrow money from investors may issue bonds. Bonds are loans in which you, the investor, lend money to the borrower (a firm, the government, etc.) for a predetermined amount of time at a predetermined interest rate. If all goes according to plan, at the end of the designated time, the borrower pays you back the loan's principle. Of course, you can also resell the bond before its expiration date on the open market. Bonds can be classified into a number of more intricate categories, including convertible, callable, and zero-coupon bonds. Although familiarity with them isn't vital to comprehend the fundamentals of using bonds to generate money, they can have a position in your plan.

A bonds return is predictable, and if you hold the bond until maturity, you'll get your principal back, assuming the issuer doesn't default. There is virtually little default risk associated with certain fixed- income investments, such as US Treasury bonds and other bonds. The yield you get is often lower the smaller the default risk. However, the credit quality and yield of bonds vary greatly. The lower volatility of bonds appeals to many investors. Bonds' more predictable yields can be advantageous if you have certain, ongoing, and time- sensitive cash-flow requirements. Bonds' lower volatility has a downside in that they return less over longer time periods.

For investors who must achieve specific return targets in order to maintain their purchasing power over the long term, bonds may be a more challenging prospect.

Of course, there is a danger of default, but there are other bond risks as well. Since bond prices move in the opposite direction of interest rates, an increase in rates will frequently result in a decrease in the value of your bonds, a situation known as interest rate risk.

This has a particular impact on Treasury bonds because, while all bonds are somewhat affected by changing interest rates, corporate bonds can becushioned by other variables (such as increasing earnings) that Treasury bonds are not. Bond yields and prices can be compared to two opposite ends of a seesaw. You will find that variations in one will cause the other to move in an opposite direction.

Additionally, because the interest rates on most bonds are set, your cash flow loses real purchasing power if inflation increases. When inflation does increase, interest rates frequently follow suit. As a result, existing bondholders may be hit twice: by dropping bond prices brought on by rising rates, as well as by the declining purchasing power of their present holdings' coupons.

Reinvestment risk is also to be considered. There is always the chance that when your bonds mature and your capital is returned, you will have no other options for investing your money with equal risk and return expectations. Bonds may be returning more or less now than they were when you made your initial investment, which could mean you have to take on more risk to get the same return. This risk currently affects many bond investors who had maturing holdings from issues prior to 2008. This is a risk to be considered.

Stock Dividends

Who wouldn't want to be compensated for simply owning a stock? Dividends can be appealing. However, you must go further before deciding to invest in a portfolio composed of high-dividend equities to meet your cash-flow needs. High-dividend stocks are subject to market trends, as are all other significant stock categories. Each category experiences periods where it leads and periods where it lags, whether it is growth or value, small cap or large cap. Similar to other investments, high-dividend stocks can perform well or poorly.

What happens to a company's stock after a dividend is paid is something else you should think about. It is not gratuitous cash. All other things being equal, the stock price of dividend payers typically declines by an amount equal to the dividend that is being paid. After all, the business is donating cash, a priceless asset.

There is nothing intrinsically superior about companies that pay dividends. Additionally, payouts aren't assured. Companies that pay them have the option to reduce or eliminate the dividend. For instance, a a utility that had a lengthy history of paying dividends stopped doing so between 2001 and 2002, when its shares dropped from the low $30s to about $5. During the 2008 credit crisis, banks and numerous other businesses reduced their dividend payments.

Since you should be concerned with overall return as an investor, it is likely costing you money to force yourself to invest in dividend-paying companies regardless of the state of the market. It is preferable to diversify your holdings and put money into assets that are part of a comprehensive plan. Keep in mind that you should not care where your after-tax return comes from because your goal is to maximize it.

Dividends are perfectly fine, but you shouldn't only pay attention to them, and other strategies may prove more effective.

We'll then look at a different option for investors who dedicate some of their assets to stocks.

Sell Stock

Selling equities strategically to generate cash flow is what we'll refer to as "homegrown dividends." With the added bonus of being a flexible, potentially tax-efficient method of generating cash flow, selling stock to meet income demands can assist you in maintaining a well-diversified portfolio appropriate for your goals and objectives.

Bond interest, which is taxed at your (presumably) higher marginal rate of earned income tax, may have a more favorable tax treatment than long-term capital gains. Taxation on dividends can vary depending on the situation. Ordinary income tax rates apply to some dividends, such as those from MLPs and REITs or when an investor hasn't maintained the necessary minimum holding term to qualify for the dividend. Long-term capital gains are taxed in a manner similar to qualifying dividends, but selling equities gives you more freedom in balancing realized profits and losses. You can reduce over-weighted positions or sell down equities as a tax loss to offset potential capital gains—options you probably wouldn't have if relied solely on dividends for cash flow.

For instance, if your portfolio is worth $1,000,000 and you distribute $40,000 in monthly installments of approximately $3,333, you may think about maintaining about twice that much cash on hand at all times. Because you aren't obligated to sell a specific amount of stocks each month, you can be strategic about what and when you sell. However, you should constantly be striving to cut back and prepare for distributions a month or two in advance.

In general, selling stocks can increase the value of your portfolio if done properly. And as a result, you can, if necessary, keep a larger portion of your funds in an asset class with a higher likelihood of producing better long-term returns. You might even own some dividend-paying companies to bring in more money. However, that choice can be made based on whether you believe the stocks are the best ones to hold in terms of total return; you are not forced to hold them simply because of the dividend.

Alternative Investment Income Sources

A pass-through corporation created to invest in real estate holdings is a real estate investment trust (REIT). These companies typically invest in office buildings, retail spaces, residences, assisted-living or healthcare facilities, hotels, and resorts.

Rent or lease income accounts up the majority of REIT revenue. Qualified REITs enjoy a beneficial tax policy in that they are not obliged to pay corporate income tax, and they are required to distribute at least 90% of their taxable revenue yearly to shareholders in the form of dividends.

A corporation that pays out 90% of its income frequently finds it difficult to reinvest in order to expand organically. As a result, the industry is mainly made up of smaller businesses that lack the basic growth traits that are often preferred as bull markets mature.

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Some of the sources of income we've just covered may have a place in your portfolio, but it can be overwhelming to figure out which is right for you. That's where a skilled professional adviser can help.