

Investment Insight: Income Stream Must Be Regimented



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All kinds of things happen when you retire. Your paycheck performs a disappearing act, for example. In some respects, income planning in retirement can be more complicated than during your working years. You are no longer in the accumulation phase and spending down a portfolio can be tricky. You don't want to run out of money before you run out of life.

There are many moving parts and unpredictabilities in plotting the spend-down, such as:

- How long you will live.
- What the inflation rate might be.
- How capital markets will perform.
- The effects of inflation over a 20-to-30 year retirement.

Experts say that the five years before you leave work and the five years after are crucial transitions in financial planning. As you shift from accumulation of capital to preservation of capital, plan carefully.

At Hilliard Lyons, we recommend the following measures:

- Invest more to boost retirement savings. If you are 50 or older, take advantage of catch-up contribution provisions in your 401(k) or other retirement plans. If you have invested aggressively, we recommend moving assets from high-risk to low-risk vehicles just before retirement. This stock-to-bond shift could protect you from a severe market downturn. A basic rule of thumb, subtract your age from 100 and put that in the stock portion. Wage-earning investors with a greater risk tolerance could keep as much 80 percent of their portfolio in stocks, still reallocating every year.
- To lessen the possibility of outliving your nestegg, limit your first year's withdrawal to 4 percent of your retirement balance. If investments continue to perform well, give yourself a raise. Use the 4 percent figure to determine a budget. How much income will you reasonably need in retirement? What will your expenses be when you no longer work? This will help you decide if the 4 percent withdrawal rate will finance your goals.
- Do a dry run. Set the budget outlined above two years before you retire and stick to it for a practice run during that run-up to retirement period. It will be a confidence builder. If you wait until you have been retired 10 years, you may no longer have the health or marketability to replace income by earning it.

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The complexities of building, preserving and passing along wealth have never been greater. Affluent investors are increasingly seeking guidance and comprehensive solutions that consider their unique circumstances and long-term goals. It's my pleasure to work with such individuals to offer insight, advice and solutions in helping them reach their goals.

Social Security is one of the three legs of the American retirement. It provides roughly 30 percent of the average retiree's income stream. But when should you begin to take your Social Security benefit? Early at the age of 62 or at "full retirement age" which now varies (between 65 and 68) according to your date of birth. There are pros and cons to delaying entitlement. The best starting date depends on several factors:

- Do you need the income?
- Do you plan to work past the age of 62?
- Do you wish to ensure a benefit to a surviving spouse?

If you work past age 62, then starting Social Security early may be counterproductive. If your earned income is above the Social Security earnings cap, you forfeit \$1 for every \$2 you make above the cap due to federal regulations. However, a single individual in poor health may wish to begin taking Social Security at 62 before reaching "full retirement age." Be aware however that doing so will exact a permanent penalty of approximately 20 percent from the benefit stream.

Other assorted considerations:

1. In what format do you wish to receive retirement payouts? If you fear running out of money, one solution is to transfer the risk of this possibility to an insurance company by buying an annuity. An annuity is a type of insurance policy that doles out a portion of your investment in it on an annual basis based on an actuarial assumption about how long you will live. Some are conservative in nature, some are not. Some are insurance/investment hybrids. To pursue this option, have your Hilliard Lyons Financial Consultant evaluate the annuity spectrum and help you choose one that is appropriate for you.
2. A self-managed 401(k) can be like a do-it-yourself appendectomy kit. This is true before or after retirement day. It is true in the accumulation phase of retirement planning and in the payout phase of retirement reality. If you don't know a stock from a bond, turn your cash management decisions over to a professional money manager. Your Financial Consultant can advise you on the mechanics of performing a rollover without incurring tax consequences.

A comprehensive financial plan will take it several steps farther and analyze not only the probability of retiring at a certain age but will also review other financial needs such as risk management, cash management, efficient transfer of assets and long term care protection. This financial check-up will become the foundation of your retirement planning.

Please call me to set up your first appointment to see how your projected income stream might look. If changes are needed, now is the time to make them.

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