

# Planning a Retirement ‘Paycheck’



Even if you have made all the adjustments necessary to enjoy your ideal retirement, at least one aspect of it may vex you: the absence of a paycheck. Most of us have spent a lifetime expecting regular income to appear in time to pay monthly bills and extraordinary expenses.

The “retirement paycheck” idea is increasingly common because studies have shown that retirees – even those with substantial portfolios – appreciate – a dependable income stream. To be sure, your Social Security check appears monthly, but how can you arrange for your portfolio to begin paying you regularly for the rest of your life? Even if you are not retired, it may be time to plan how you would arrange a money stream.

## Arranging a Payout

One way to potentially convert your portfolio into an income stream is to put at least some of it into a fixed income annuity (also called an immediate annuity). If at 65 you were to buy such an annuity for \$200,000, you might expect a fixed, lifetime payment of approximately \$1,370 a month for the rest of your life. Precise figures depend on your gender, your and your spouse’s life expectancy and other factors related to the options you choose. Purchasers should be aware that long-term inflation risk may detract from the value of the regular payments and that any guarantee of a fixed, lifetime payout depends solely on the claims-paying ability of the issuing firm.<sup>1</sup>

There are other ways. You may adopt an asset allocation strategy likely to keep your portfolio on track as you age, then devise a regular withdrawal strategy.<sup>2</sup> Bonds that pay regular interest, laddered certificates of deposit that mature and pay on a set schedule, and dividend-paying stocks are other alternatives.<sup>3</sup>

## Withdrawal Choices

Will you withdraw your funds on a dollar-adjusted or a percentage basis? Each has pros and cons.

Set dollar withdrawals adjusted for inflation will provide you with predictable amounts – monthly or annually. Your money has at least a 75% chance of lasting 30 years if you take a 4% initial withdrawal from a portfolio split 50/50 among stocks and bonds.

Choose the percentage basis and your portfolio is more likely last your lifetime, but cash flow may decrease dramatically during an extended bear market. For example, if you plan to withdraw 5% annually, it may the next year be measured against a shrinking portfolio.

Everyone’s retirement needs are different, and income stream choices will suit some investors better than others. If you have questions as you plan for your retirement income, don’t hesitate to call me.

<sup>1</sup>Withdrawals prior to age 59½ may be subject to a 10% federal tax penalty on the gains. Earnings are taxed as ordinary income upon withdrawal.

<sup>2</sup>Asset allocation does not ensure a profit or protect against a loss.

<sup>3</sup>Dividends will fluctuate and are not guaranteed.

If you have questions about your portfolio or any market or retirement matter, please don’t hesitate to call me.