Income

WITHDRAWING YOUR RETIREMENT INCOME WISELY

RAYMOND JAMES®

Whether you're in or near retirement, keeping a watchful eye on your spending – and its effect on your principal – can be pivotal in determining whether your funds will last at least as long as you do.

Tapping your investment portfolio for income during retirement requires a balance between withdrawing too much – and running the risk of depleting your principal – and not withdrawing enough to maintain a comfortable, affordable standard of living that can keep pace with inflation.

In determining how much money to withdraw from your retirement funds, you need to establish:

- Realistic income needs throughout your retirement years,
- All of the sources of income available and additional assets that may be available to you, including inheritances, pensions, Social Security, part-time salaries, etc.,
- Which expenses will be fixed, and which are likely to vary (your financial advisor can help you analyze your cash flow and assess your budget),
- Some basic, but flexible, assumptions about the future – from estimated rates of returns on your investments to your expectations for inflation,
- Contingency planning for major expenses such as long-term care costs, which can dramatically affect your retirement plans,
- How much of a financial "cushion" you'll want to maintain to deal with unanticipated events,
- Which accounts you will access first, together with the consequence of withdrawing funds from them,
- If and/or when you will start withdrawing principal as well as income,
- Whether, once all aspects of your situation are assessed, you will have sufficient funds to generate the lifetime income you have targeted, and
- Your plans for your legacy – determining whether and how to leave money to family members, charitable organizations, etc.

Countering the Impact of Inflation

Whether rising inflation represents a current danger or potential threat, the possibility that the purchasing power of your money will diminish is a factor you must consider.

When you are working, your wages may rise as the costs of goods and services increase, thus keeping pace – more or less – with inflation. In recent years, sluggish economic activity has worked to keep inflation low. However, even moderate inflation can significantly reduce your income over time. Assuming a 3% rate of inflation and no other changes, if you currently need $60,000 a year to live, in 10 years, you would need approximately $80,000 annually to support the same standard of living and, in 20 years, you would need an annual income of $120,000. After 30 years, you would require an annual income of roughly $163,000 to maintain your original standard of living.

Of course, this is a simplified hypothetical example – and inflation is only one unknown on the horizon. Your financial advisor has access to financial planning software that can address these and other issues unique to your personal situation. Make sure to talk to your financial advisor about the inflation outlook as well as other factors that could affect your retirement income, including possible changes in tax law and the future of Social Security.

Lifestyle Changes

Many newly retired individuals actually spend more money during the first several years of retirement than they did while working, as they catch up on travel, take time to visit the grandchildren or dedicate themselves to new hobbies. This relatively high level of spending tends to taper off over time.

However, while expenses for items such as travel and entertainment may lessen during the later retirement years, health-related costs could increase faster than the general inflation rate. Your financial advisor can assist you in modeling these varying lifestyle expenses throughout your retirement and keep you on track in managing your retirement resources.

Tax Awareness

Careful tax planning can be just as important during your retirement as it was before – something to consider when you begin to withdraw income from your retirement assets.

Your financial advisor is well-positioned to coordinate key retirement-related tax and other decisions with your tax professional and attorney, and can work with you to examine different withdrawal strategies that may be beneficial to you.

In general, individuals with Roth IRA or Roth 401(k) accounts may elect to leave them intact for as long as possible. Even though their Roth contributions were made with after-tax funds, Roth accounts allow for tax-deferred growth and tax-free distributions, assuming the contributions have been in place for at least five years and the account holder is at least 59½.

Your financial advisor has analytical tools and resources at his or her disposal to assist you in considering the conversion of your traditional IRA to a Roth IRA in 2010, when a change in the tax law will permit those individuals with modified adjusted gross income levels above $100,000 to make the conversion.

Managing Withdrawals

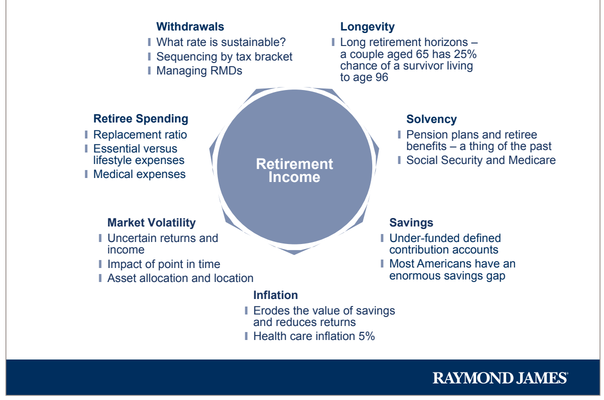
A typical rule of thumb suggests spending a "fixed real" amount equal to a designated portion of your wealth at retirement, keeping the balance invested in a mix of stocks and bonds. The appropriate withdrawal rate is determined by the amount of income you need during your retirement years less income from other sources.

The rate should be calculated with a number of factors in mind, including the assets you currently own – and the potential impact of inflation on those assets. You should also consider the state of your health, the expected volatility of your investments and, of course, the financial legacy you plan to leave your heirs.

In most cases, holders of qualified retirement plans must make a minimum withdrawal each year beginning at age 70½. Your financial advisor can assist you with calculating your required minimum distributions (RMDs) from your qualified retirement accounts each year.

The chart below illustrates many of the challenges that retirees face. Your financial advisor has the tools and resources necessary to assist you in addressing each of these significant challenges.

Retirees Face Numerous Risks*



* **Past performance is no guarantee of future results. • An investment cannot be made directly in an index.** • This art is for illustrative purposes only and not indicative of any investment. 3/1/2009 • Source: Created by Raymond James using Ibbotson Presentation Materials.