



Correcting your course

You've got options if your best-laid retirement income plans veer off track

You saved decisively and proactively throughout your career, invested your earnings prudently and accumulated a nest egg you're proud of. You followed professional advice and the many rules, and you've stepped into the retirement of your dreams – one filled with freedom, new experiences and fond memories. But imagine what would happen if, after waving goodbye to the 9 to 5 and the steady paycheck your job provided, your retirement withdrawal plan stopped working the way you'd hoped.

Even the best-laid plans go awry. Withdrawal mistakes, overspending, plan inefficiencies and general slip-ups occur, diminishing some retirees' nest eggs and, in certain cases, even necessitating a return to the workforce. Consider these common blind spots and work with your advisor to identify issues, implement course corrections and set your withdrawal plan on a path you won't falter from.

BLIND SPOT

FRAMEWORK LACKING FINESSE

Creating a sound retirement withdrawal strategy is no easy feat. It requires structuring your income streams to cover the expected costs of housing, food, healthcare, entertainment, transportation and more –

all the elements of a well-planned retirement – for an unknown period of time, often two to three decades given rising life expectancies. Unfortunately, many new retirees find they spend more than their withdrawal strategy allows; others realize, sometimes years after retirement began, that their plan doesn't use the full power of their various income streams.

THE FIX

If you've found yourself in either of these camps – or are worried you will – coordinate with your financial and tax advisors to structure your retirement income in a way that maximizes expected cash flow while minimizing taxes. And if overspending is the main reason your withdrawal strategy is off course, consider drafting a spending policy statement (SPS) with the help of your advisor.

Similar to an investment policy statement – which helps define an investor's risk tolerance and return objectives – an SPS documents your long-term spending goals. It serves as a gentle, yet powerful reminder to avoid actions that could throw off your future plans.

If you're overspending regularly, you may need to answer some tougher questions, like:

- Why did you withdraw extra? What did you spend it on?

- If the market drops, would that affect your confidence in your financial future if you continue to spend more than you've budgeted?
- Are you aware that your spending is tracking upward year-over-year? And is that pace sustainable? If not, rethink your withdrawal plan immediately to get back into your comfort zone.
- Will running out of money sooner than expected leave you vulnerable at a time when you'll need to fund extra support, caregiving and transportation costs?
- How far has your actual withdrawal rate veered from your planned one? Your advisor can offer a side-by-side comparison.

By putting these intentions in writing and revisiting them regularly with your advisor, you'll be better able to manage spending expectations and evaluate your options when new situations arise.

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IGNORING THE SMALL STUFF

Overspending, particularly on discretionary items, can slowly, almost unnoticeably, chip away at your savings and eventually disrupt your long-term projections.

THE FIX

One option is to curtail your costs. Cutting back doesn't have to be painful. It could mean forgoing your daily latte in favor of homebrew or hosting potlucks instead of dinner parties. A little discipline can help you bring your spending back in line with your plan.

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BEING TOO CONSISTENT

Many retirees craft their retirement strategy around withdrawing a percentage of their total portfolio each year, increasing that amount to account for inflation. Under this formula, a \$1 million portfolio and 4% withdrawal rate would provide pretax income of \$40,000 in year one and, assuming inflation runs 3% annually, \$41,200 in year two, \$42,436 in year three and upward from there. However, if your retirement assets decline in value over several years while the amount you withdraw is rising, there could be monetary trouble later on.

THE FIX

Avoid this issue by working with your advisor annually to set a fixed withdrawal percentage based on the year-end value of your portfolio. This tactic causes some years to be flush while others are leaner, but you'll have the comfort of knowing you're not negatively affecting future plans with today's spending.

Alternately, you and your advisor can consider establishing a "floor" – an amount that covers your basic needs and can be withdrawn in any market environment – enabling discretionary spending to be adjusted based on your portfolio's performance.

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FUZZY ON TAX-EFFICIENCY

Retirees often underestimate the effect an inefficient withdrawal plan has on what they pay in taxes. Many even avoid withdrawing from tax-favored retirement accounts for as long as possible, seeing 70½ as the earliest they'll want to draw from traditional IRAs and 401(k)s to avoid paying the ensuing income tax bill. Unfortunately, by that time, the balances in those accounts may be large enough that your required minimum distributions may push you into the next highest tax bracket.

THE FIX

Since withdrawing from retirement accounts can begin as early as 59½ without penalty – and sometimes earlier under special rules – consider withdrawal strategies with your advisor and tax professional that could keep you from paying higher tax rates on your income in the future. Establishing multiple sources of retirement income also gives you the option of withdrawing the money as tax-efficiently as possible, especially helpful when an unexpected expense crops up.

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FORGETTING THE LONGEVITY FACTOR

Thanks to advances in medicine, better understanding of diet and ever-evolving technology, we're living significantly longer than generations before us. While that's a good thing, planning fastidiously for potential long-term care needs is an often overlooked aspect of a comprehen-


sive retirement withdrawal strategy. Consider this: The 2017 Genworth Cost of Care Survey cites the national median cost of a private nursing home room as \$8,121 per month. By 2037, inflation is expected to drive that number up to \$14,667.

Your retirement as a whole could be affected if you, like so many, find you require increased or specialized care as you age and your plan can't accommodate the added expense.

THE FIX

Rein in the unknown by creating a specific funding plan with your advisor. Consider long-term care funding options such as traditional long-term care insurance or life insurance with long-term care payout riders, as well as asset-based long-term care contracts. Keep in mind that you should be planning for long-term care years before you'll ever need it. If you wait past your 40s and 50s, affordable policies may no longer be an option for you. Now is also a good time to bolster your emergency fund, so you'll be best prepared for whatever the future holds.



Though modern retirement has a lot of moving parts, proper planning and a willingness to make course corrections create retirements defined by freedom and new beginnings. If you find yourself off course or realize your withdrawal strategy isn't living up to the demands of your retirement needs, coordinate with your advisor and other planning professionals to craft a plan fully underpinned by a solid financial foundation. 

Sources: genworth.com; marketwatch.com; fool.com; money.usnews.com; kiplinger.com

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