



How to turn your retirement savings into income

401(k) ADVISOR

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Over the years, I've spent a good deal of time discussing how to accumulate money for retirement. Today, we take a look at the opposite end of the spectrum: converting retirement savings into retirement income.

While everyone knows how difficult it is to build wealth for retirement, deciding how best to spend it is no walk in the park either. The key question is, "How can I make sure I don't outlive my money?"

To begin, you'll need an idea of what it will cost to support yourself in retirement. A free tool to help you answer this question is the retirement budget worksheet found in the "Turning Savings into Retirement Income" area of the "Retirement Countdown" section of TIAA-CREF's website (www.tiaa-cref.org).

Next, you'll need to make some important assumptions about the future.

According to Bill Hogan, an actuary with Milliman, Inc., while a 65-year-old man has only a 30% chance of living past 90 and his 65-year-old wife a 40% chance, the odds that at least one of them will make it to 90 approach 60%. So barring a severe medical condition, most people should develop a 20- to 30-year plan. That's a period of time during which inflation could easily double your cost of living, assuming a 3% rate of inflation.

Once you've estimated your retirement expenses, you'll need to survey your assets to determine what you're able to liquidate to cover these expenses. For a quick estimation about how long these assets could last, check out T. Rowe Price's retirement income calculator at www3.troweprice.com/ric/RIC.

Then you'll want to figure out which of your retirement assets to tap first.

The name of the game here is tax avoidance. Let's face it, you've worked hard for these assets. So rule No. 1 when you begin to tap into your retirement assets is avoid paying taxes for as long as possible.

This means it is generally a good idea to start with your after-tax personal

savings and look to your tax-deferred savings – like 401(k)'s, IRA's second.

But don't forget that at age 70 ½ you're required to begin withdrawing a minimum amount from your tax-deferred savings accounts whether you need it or not. Roth accounts provide the most powerful income tax shelter and should generally be left for last.

Of course there are many different scenarios in which it would be wise to withdraw assets in a different order than I've described. For example, if you plan on leaving any of your assets to the next generation, after-tax assets with a low cost basis should be preserved for that purpose.

The point is to carefully consider the tax ramifications of your decisions before tapping into your retirement savings.

The last issue you'll need to wrestle with is how to invest your assets while in retirement.

It's hard to overstate the importance of this issue. Adding just two percentage points to your annual return could mean the difference between leaving little Johnny a nice nest egg, and having to move in with him when you turn 85.

However, not everyone has the time, interest, or aptitude for dealing with retirement assets.

One solution for those who do not feel up to the task of managing their retirement assets is to consider an immediate annuity.

These investment products are offered by insurance companies and turn a lump sum investment into a lifetime stream of steady income. In exchange, you give up the potential upside of this money by handing it over to the insurance company forever.

Immediate annuities come in many varieties but usually generate higher income than a CD because they are paying some of your principal back with each payment, and pass on the advantage of being able to keep the money of those investors who die prematurely.

Before you invest a nickel, however, get a number of quotes from a reliable agent or sources like www.immediateannuities.com.

While a challenge in their own right, immediate pay annuities can take a lot of the worry out of handling retirement assets, especially if your relatives have demonstrated a history of living a long time.

It is not, however, a good idea to invest all of your retirement assets into such a vehicle. For the rest of your retirement assets, a key word to remember, "diversify."

With a 20-plus year time horizon to deal with, keeping between 25% - 75% of your money in equities makes a lot of sense.

There's no single strategy that is right for everybody. How you proceed should depend on your goals for retirement, the assets you've managed to accumulate, and how skillfully you can manage them going forward.

There's one prediction I can make quite confidently, however: Those who fail to plan will most likely be working longer than they had bargained for.

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