

## Income in Retirement

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### In This Issue

- Income in Retirement

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You've worked hard your whole life, anticipating the day you could finally retire and enjoy your golden years. Well, that day has arrived. There's still work to be done, however. You'll need to carefully manage your assets so that your retirement savings will last as long as you need them to last.

#### Review your portfolio regularly

It's commonly said that retirees should value the safety of their principal above all else. For this reason, some people shift their investment portfolio to fixed-income investments, such as bonds and money market accounts, as they approach retirement.

The problem with this approach is that if returns don't keep up with inflation, an investment portfolio may not enjoy the growth needed to fund today's longer retirements. So while there are good reasons to invest more conservatively as you grow older, consider maintaining at least a portion of your portfolio in growth investments.

#### Choosing a sustainable withdrawal rate

A key factor in determining whether your assets will last for your entire lifetime is the rate at which you withdraw funds. The more you withdraw, the greater the likelihood you'll exhaust your resources too soon. On the other hand, if you withdraw too little, you may not enjoy your retirement as much as you could. It's vital that you estimate an appropriate withdrawal rate for your circumstances, and determine whether you should adjust your lifestyle and/or estate plan.

An appropriate withdrawal rate depends on many factors, including the value of your current assets, your expected rate of return, your life expectancy, your risk tolerance, inflation, your expenses, and whether you want some assets left over for your heirs.

Studies have tackled this issue, resulting in the creation of tables and calculators that can provide you with a range of rates that have some probability of success. At Stage 2, we have an extensive tool chest to help you with this analysis.

#### Which assets to draw from first?

Most retirees have assets in accounts that are taxable (e.g., CDs, mutual funds), tax deferred (e.g., traditional IRAs), and tax free (e.g., Roth IRAs). Given a choice, which type of account should you withdraw from first? The answer is--it depends.

For retirees who don't care about leaving an estate to beneficiaries, the answer is simple in theory: withdraw money from taxable accounts first, then tax-deferred accounts, and lastly, tax-free accounts. By using your tax-favored accounts last, and avoiding taxes as long as possible, you'll keep more of your retirement dollars working for you.

In practice, however, your choices, to some extent, may be directed by tax rules. Retirement accounts, with the exception of Roth IRAs, have minimum annual withdrawal requirements. In general, your first withdrawal must be made by April 1 of the year following the year you turn age 70½, with subsequent distributions due each December 31. Failure to do so can result in



We believe that a successful wealth management relationship starts with clarity of purpose.

Before embarking on any plans or strategies with our Client, we first seek to develop a clear understanding of your personal and financial goals.

We then work with you to select and implement strategies that will help you move toward your goals.

a 50% excise tax imposed on the amount by which the required minimum distribution exceeds the distribution you actually take.

For retirees who intend to leave assets to beneficiaries, the analysis is more complicated. You need to coordinate your retirement planning with your estate plan. For example, if you have appreciated or rapidly appreciating assets, it may be more advantageous for you to withdraw from tax-deferred and tax-free accounts first. This is because these accounts will not receive a step-up in basis at your death, as many of your other assets will.

However, this may not always be the best strategy. For example, if you intend to leave your entire estate to your spouse, it may make sense to withdraw from taxable accounts first. This is because spouses are given preferential tax treatment with regard to retirement plans. A surviving spouse can roll over retirement plan funds to his or her own IRA or retirement plan, or, in some cases, may continue the deceased spouse's plan as his or her own. The funds in the plan continue to grow tax deferred, and distributions need not begin until the spouse's own required beginning date.

By planning carefully, investing wisely, and spending thoughtfully, you can increase the likelihood that your retirement will be a financially secure one.

Our total wealth management services can help you with these very important questions. For more information, please contact your Stage 2 Consultant.

With warm regards,

### **Stage 2 Planning Partners**

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