



Compositions

Getting A Paycheck In Retirement: Valuable Tips On Converting Savings To Income

Your mission, should you choose to accept it, is to flip the switch from contributions to distributions! You've saved consistently over the years (or right now you are wondering if you're saving enough) in order to receive an ongoing income stream—now what?

taking too little (you may not enjoy the years as much as you could) and taking out too much (you may run out of money in your later years) takes some skill, so consider working with a financial professional that has some real experience in strategizing for income.

theoretically simple approach leaves the tax-favored accounts last in order to avoid taxes as long as possible, and keeps more of your retirement dollars working for you.

Knowing Your Standard Of Living, or Should I Say "Budget"?

Face it—no one likes the restrictive feel of the word 'budget'. So change the way you approach the process; make it an exercise of identifying your true standard of living. Before your team of family members and financial professionals begin the work on withdrawal rates, order of liquidation, income strategies etc., you must go through the process of establishing expected expenses. Start with the must-haves (needs), then move on to the what-ifs (unexpected), and lastly add in the hope-chest (wants and desires).

Most professionals in the area of estate and retirement income planning agree that keeping the withdrawal percentage rate close to 4% annually should provide inflation-adjusted income for at least 30 years. Don't forget that this percentage is based on historical data from various types of investments, and past results don't guarantee future performance. Your unique situation is what determines the annual rate of withdrawal, as well as the asset allocation, projected rate of return, the balance between fixed income streams (pensions, social security, and/or annuities) and varying withdrawals, and your investment time horizon.

On the other hand, if you prefer to leave assets to beneficiaries, some complications arise. Estate planning and retirement income planning should be coordinated in order to account for appreciated asset values, tax benefits, generation-stretching strategies and surviving spouse situations. The bottom line is that a financial professional should be involved to help you determine the best course based on your individual circumstances.

The Initial Withdrawals

The early years of retirement are very significant when it comes to setting up the income stream through withdrawals from retirement savings accounts. Getting the standard of living assessed is crucial because the withdrawal amounts will have a lasting impact on how long your savings last. Establishing the balance between

Where Will The Money Come From?

You may have 401k plans, pensions, Roth IRAs, annuities, etc., so which one should you use first? If you don't care about leaving an estate to beneficiaries, you may want to start with the taxable accounts, then move to the tax-deferred and save the tax-free accounts for last. This

A Moment To Address Taxes...

While the order of liquidation is important, in practice the choice may be directed by IRS tax rules. Required Minimum Distribution (RMD) rules mandate that at age 70 1/2, distributions must begin from your tax-deferred accounts (IRAs, 401k's, etc.). Roth IRAs are not subject to the rules. RMDs are calculated for each separate IRA. The amounts are then added together to determine the RMD for the year. You can take the amount from any IRA account that you want, but make sure and work with your advisor to ensure you get this withdrawn! If not, there could be penalty taxes to pay.

The information contained herein should not be deemed as financial, tax or legal advice. Please consult your accountant, tax attorney and/or financial consultant, prior to making any investment decisions.

Inside this issue:

- Where To Start In Retirement
- Strategies for Income
- Planning for 'What If'



Strategies For Retirement Income



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More ways to help stretch your savings

- *Don't overspend early in your retirement*
- *Plan IRA distributions so you can preserve tax-deferred growth as long as possible*
- *Postpone taking Social Security benefits to increase payments*
- *Adjust your asset allocation*
- *Adjust your annual budget (standard of living) during years when returns are low*

Retirement income planning is a very individual matter, and no single strategy or investment is right for everyone. Consideration of your desired lifestyle, risk tolerance, life expectancy, potential returns on investments, market volatility and the amount of fixed income available through Social Security and/or pension benefits, are part of the equation in decision-making.

Let's take a look at some of the common strategies:

1. Annuities—because they can guarantee a stream of income for the rest of your life, annuities are a common investment strategy. There are many types (fixed, indexed, variable, immediate, etc.) so consult with a financial professional prior to making a decision.
2. Income-generating assets—one of the challenges in managing a retirement investment portfolio, is to figure out how to generate predictable, reliable, sustainable and knowable income without running out of money too soon. By implementing a strategy with investments that generate income (CDs, Treasury securities, preferred
3. Automated inflation fighting—some investments are designed to fight inflation for you. Treasury Inflation-Protected Securities (TIPS) pay a slightly lower fixed interest rate than regular Treasuries. However, your principal is automatically adjusted twice a year to match changes in the Consumer Price Index (CPI). Those adjusted amounts are used to calculate your interest payments. Some mutual funds are managed with an eye toward inflation as well.
4. Distribution funds—designed to provide an income stream from year to year, some mutual funds may be another strategy to consider. Distribution funds are actively managed mutual funds that focus not on maximizing asset growth, but on making regularly scheduled payments to investors. This strategy should be carefully examined with a financial professional.

What If?

We all make plans, but it is sometimes easy to overlook some of the common factors that can affect how much you'll have available to spend. If you don't consider how your retirement income can be impacted by investment risk, inflation risk, catastrophic illness or long-term care, and taxes, you may not be able to enjoy the retirement you envision.

- Investment Risk includes market risk (the fluctuations in the securities market), re-investment risk (when the proceeds from one investment are reinvested at a lower rate), interest rate risk (when interest rates rise and the prices of some existing investments drop).
- Inflation Risk is the risk that the purchasing power of a dollar will decline over time due to the rising costs of goods and services.
- Long-term care expenses may need to be covered if physical or mental disabilities impair your capacity to perform every day basic tasks. As life expectancies increase, so does the potential need for skilled care.
- Health Care costs in retirement are becoming more important to consider carefully. If you recently retired from a job that provided health insurance, you may not fully appreciate how much health care really costs.
- Taxes and their impact on your retirement savings are often overlooked, yet they can eat into your income. Make sure you have planned for these factors!

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Content Source: *Foremost Advice/Broadridge, The Daily Sentinel*