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55 YEARS

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Brian Hill - Financial strategies to improve your retirement plan - Part 1

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Today's retirees need to develop a plan to generate an inflation adjusted lifetime income stream. In the past, many retirees could rely on a pension plan that would provide a monthly paycheck as long as they lived. Today, unless you are retiring from the public sector, pension plans are rare.

I teach a six hour class about retirement planning and how to transition from the accumulation stage of saving for retirement to the distribution stage of living off your investments and other sources of income. In a short article such as this I can't cover all of the material I would cover over six hours however I will give you some of the key themes to plan your retirement income. These strategies assume you have developed the right mix of stocks and bonds and have a well diversified portfolio.

Here are ten strategies to improve your retirement income plan:

1) Plan your social security payments- For every year you delay taking social security payments beyond age 62 you will have an 8% annual increase. Social Security payments are inflation adjusted guaranteed lifetime income stream. Many married couples don't realize if the higher earning spouse delays benefits (maximum age 70) and then passes away, the higher benefit payment will continue for their spouse's lifetime. Additional information and assistance is available through the social security administration.

2) Consider an encore job - An encore job is a retirement job. A full or part time job that relates to a hobby or interest that can still bring in some income. It is usually not a Monday to Friday 9 -5 job. Many times it is a part time job such as Tuesday through Thursday with four day weekends. If you have some income coming in you will need less from your investments which may allow your investments to accumulate. This strategy may give you more income later in life. The income from your job tends to be adjusted for inflation. Your job may also provide health insurance. I mention in our class that a retirement job generating \$25,000 a year is financially equivalent to a portfolio of \$500,000 giving you 5% or \$25,000 of investment income.

3) Downsize your home - For example, if you have a \$700,000 home with a paid off mortgage. You can plan to sell the home and downsize to a \$400,000 townhouse. Married couples can exclude \$500,000 of gain and singles can exclude \$250,000 of gain-no capital gains taxes. This will free up \$300,000 to add to retirement accounts. In addition, the costs of ownership may be less due to lower property taxes, maintenance costs and utility costs.

4) Consider the order of distribution from your accounts - Our industry rule of thumb is to withdraw funds from your accounts in the following order; taxable accounts, IRA's (required at age 70.5), and lastly Roth IRA's. Taxable accounts would be first since the withdrawal would be subject to lower capital gains taxes or no taxes, IRA's would be second since you will want to defer all the income as long as you can (age 70.5) and Roth IRA's would be last since you will want to accumulate these funds as long as possible since all distributions will be tax free. In reality, many times a combination

approach will work best in alignment with your tax bracket for that year. For example, a tax fee distribution from your Roth may keep you in a lower tax bracket. The right way to do this is to meet with your advisor's annually to develop a withdrawal plan.

Part 2 will appear in the August 12th edition of NEREJ.

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