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Financial strategies to improve your retirement plan - Part 2

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5) Safe assets for income - How many times have you heard someone say he or she was all set to retire and then the market declined significantly? You will always want to have at least two and if you are very conservative as much as five to seven years of income in safe assets. The "bucket approach" to retirement income fills up bucket number one with two years worth of income (typically in a safe bank account), bucket number two with three to five years worth of income in a high quality conservative type of investment such as a short term bond fund and lastly bucket number three would be your long term money and hold your growth investments. The main idea here is to have safe assets to protect your retirement income when the stock market goes through its inevitable corrections.

6) Rebalance - Continually rebalance your investments to maintain at least two years worth of income in safe asset classes. You will want to sell the asset classes that have appreciated and reposition the funds in your safe asset bucket. Another way to fill up bucket number one is to direct the interest and dividends from your portfolio's to this account.

7) Do not take proportional withdrawals from your IRA's - Many of the mutual fund companies will set up your required minimum distributions to come out of each of your investments. If the stock side has declined 38% as it did in 2008 you will be selling low and your account may never recover from the decline. This is because you sold shares unknowingly for income during the decline. The funds should be withdrawn from a money market account or a conservative fund as described in the bucket approach.

8) Reposition life insurance cash values - Once you have accumulated assets for retirement, paid off your mortgage and your kids have left the nest you may not need as much life insurance. If you have life insurance policies with significant cash values you can reposition these funds - many times without taxes.

9) Consider using annuities for lifetime income - if your only source of guaranteed lifetime income is social security you may want to re-position 20% to 25% of your retirement portfolio to annuities. The main benefit of annuities is an income stream that you cannot outlive. There are many different types of annuities and the fees are higher than other investments. If you consider an annuity make sure you understand the product and the costs.

10) Look at tiered income streams - Most retirement planners including us tend to project a level income adjusted for inflation to age 90 or 95. However many individuals will want to customize their income stream and receive a higher income stream in the early years of retirement and a lower income in their later years. One strategy would be to withdraw a higher income from age 65 to 80 during your active retirement years and a smaller income as you become less active beyond age 80. Many who follow this strategy will add a long term care insurance policy to pay for increased health

care expenses in their later years.

There is a lot of uncertainty in projecting and developing a retirement income plan. Some of the unknowns are ; our longevity, long term care costs, the inflation rate, stock and bond market returns, our actual rate of return and of course income taxes. The above strategies should help you plan your retirement income stream, protect your income during market declines and hopefully help you enjoy a long and prosperous retirement.

Brian Hill is ChFC at Capital Analysts of New England, Quincy, Mass.