TITAN FINANCIAL ASSOCIATES

# Creative Retirement Income Strategies

by Doug Sippel

For most people who are still working, managing the accumulation of their retirement money may seem challenging, but it pales in comparison to the decisions that they must make after they have retired. "How much will I need to live on?" "Will I run out of money too soon?" How am I going to pay for medical expenses if I retire before I am eligible for Medicare?" "Where should I invest my money during retirement, I don't want to lose any of it?" "How am I going to pay for long-term care should I need it?" These are some of the questions retirees must face in making financial management decisions.

## Retirees greatest fear

One of the biggest struggles many retirees face, and you may have to deal with, is how to create a secure, guaranteed income stream which allows you to live the lifestyle you have dreamed of and at the same time protect yourself from running out of money. You also face the loss of purchasing power of that income over time due to the effects of inflation. You must be careful to balance these two issues in your planning or you may find yourself stuck in the unfortunate position of needing more income, but afraid to take more from your retirement assets for fear of running out too soon.

## A Sad Story

I recently began working with a couple whose retirement plan was ruined by the bad timing of the market downturn over the past four years and the lack of planning for creating a guaranteed income stream. In this couple's case the stock market down turn took away about 1/3$^{rd}$ of their retirement assets at a time when they could least afford to lose it. They had income coming in from the sale of their business, but this income ends this year and they are facing the tough choice of having to go back to work for a few more years. This is an example where the lack of planning to balance the need for income with the need for asset growth caused a huge problem and a major change in this couple's life.

## Plant a "Growth Tree" next to your "Income River"

As you get closer to the point when you will retire, you want to be preparing to "sell" assets at the right time, when the market is up, not down. Selling mutual funds, stocks, real estate, etc. in a down market is not such a good thing to have to do. You want to be able to turn a portion of these assets into a secure income stream and leave the rest to continue to grow to help overcome the inflation problem and to replenish the "Income River". Realizing that all markets have up and down cycles and that diversification and the ability to hold onto assets during down markets is very important. The concept here is to take enough assets out of the growth mode to create a secure income stream for 10 years or so. This is a "process" that can be accomplished in a number of ways but it almost always involves the use of fixed-income type products like Single Premium Immediate Annuities, Bonds, or CDs. etc. This allows you to leave the remaining assets invested to grow over a longer period of time without subjecting yourself to the emotional roller coaster of the market's ups and downs.

By using this strategy you will be able to “harvest” your growth tree at appropriate “up periods” in the market and not be forced to sell in a down market. You will use this money harvested from the growth portfolio to replenish your income buckets. You should be working with a competent financial advisor who can help you implement these strategies and will help give you the proper perspective so you can achieve success.

## An Example

There are many ways to create an income stream from your retirement assets. Many people have multiple assets and these assets will have different tax, investment risk, and liquidity features. Let’s take the example of a couple retiring with a home, a 401(k) plan, a mix of mutual funds and stocks from an inheritance, a life insurance contract, and possibly a pension, other assets such as real estate property, or a business.

Using the strategy outlined above this couple could create an income stream from the 401(k), which has probably been rolled into an IRA, or the mutual funds/stocks. The major difference between these two would be the income taxes that must be paid on withdrawals from the account. Withdrawals from an IRA/401(k) are subject to ordinary income taxes at the owners current tax bracket. Withdrawals from a mutual fund or stock portfolio may be subject to capital gains taxes and/or ordinary income taxes depending on the circumstances. Your individual situation will determine how and in what order to spend these assets.

By having a secure source of increasing income and allowing the remainder of the assets to grow this couple will feel much more comfortable about their lifestyle options during the retirement years. In addition if this couple would like more income and is concerned about the issue of potential long term care costs and also want to leave assets to their children or a charity they could consider the use of a combination of a reverse mortgage on their home, the life insurance death benefit and some long term care insurance. The use of a reverse mortgage at a later time after they have used up the other assets would allow them to increase their income now and replace it later with income from the reverse mortgage. The life insurance death benefit would allow them to spend the equity in their home for income and use the life insurance proceeds to provide an inheritance to their children or a gift to charity. This technique could also be used as a source of funds to help pay for the cost of long-term care if it should be needed.

Each person’s situation will be different and you must be careful to allow for flexibility and control over your assets to make changes as you see fit.

## Summary

There are numerous combinations and options available to you to achieve security and control over your retirement income. Your situation will be different than another person’s and the solutions are only limited by your creative abilities. Understanding all the different features and options available to you is a big job. You may want to consider using a financial professional to help analyze your situation and to help you design and implement a creative strategy which will work for you.

Doug is president of Titan Financial Associates a financial services firm located in Hillsboro, OR. Doug helps individuals, families, and business owners implement innovative and creative financial management strategies.
He can be reached by e-mail at dsippel@titanfa.com or at 503-629-0810