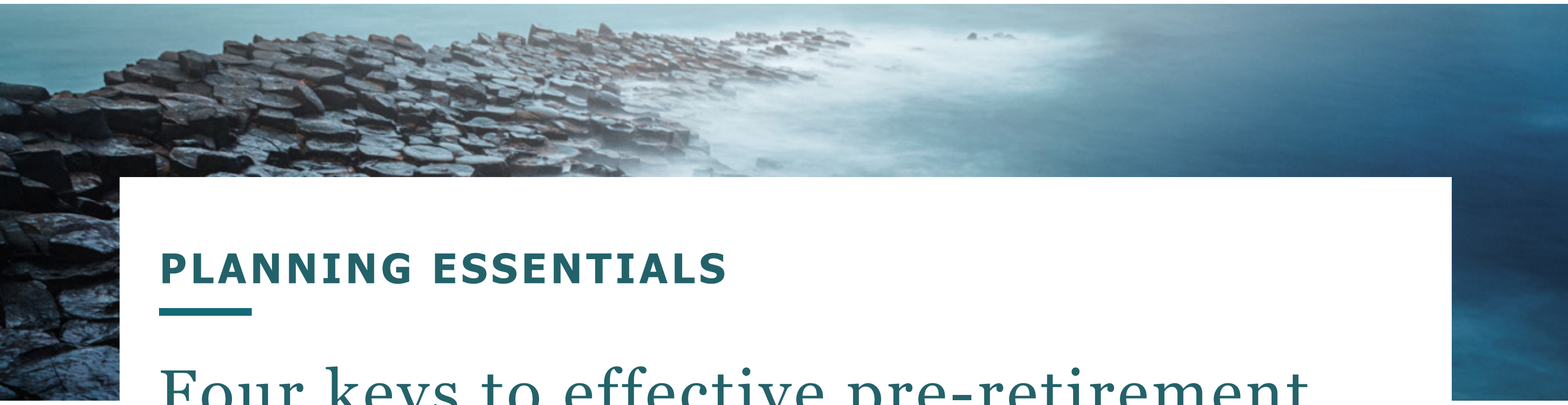
Eagle Strategies LLC

Retirement



PLANNING ESSENTIALS

Four keys to effective pre-retirement income planning

A sound retirement income plan is critical to helping you meet your retirement goals.

Income planning involves a great deal more than just saving enough—it takes careful planning that considers unique retirement risks such as longevity, rising healthcare costs, and sequence of return risk (the risk that negative returns in the early years of retirement can have a major impact on the ability of your savings to last throughout your retirement).

Like all forms of planning, income planning begins with your unique retirement vision. What are the things you want to experience and accomplish, and which of those are essential needs, important wants, or hopeful wishes?

KEY TAKEAWAYS:

1. **The risks you face when transitioning from accumulating retirement savings** to drawing down assets in retirement are very different.
2. **The more guaranteed income (e.g., Social Security, pension, annuities) you can generate,** the less investment risk you'll likely need to take on with the rest of your portfolio.
3. **Your advisor can help you determine the best way to allocate your assets** across taxable, tax-deferred and tax-free accounts, as well as the most tax-efficient way to draw income from those various accounts.

Once you've defined those goals, these strategies can go a long way towards helping you achieve them. Here are four approaches to consider:

1. **Quantify your anticipated income and expenses** – Even though it may be difficult to estimate your income and expenses accurately depending on how far into the future your retirement is, it's important to try. Ideally, you want to align guaranteed income sources (things like Social Security, pension income, and annuity payments) to cover all of your essential needs and many of your important wants. Non-guaranteed income sources (e.g., systematic withdrawals from retirement plans and other investments) will then need to fund the remaining discretionary wants and aspirational wishes.

   Pay particular attention to projected healthcare expenses, which can be costly, confusing, and difficult to quantify. Keep in mind that the cost of long-term care can be extraordinarily high and is not something that's covered by Medicare. Perhaps the most critical part of this exercise, however, will involve identifying and quantifying any gap that may exist between your annual income and expenses. This will need to be addressed either by generating additional income or cutting back on expenses.

2. **Explore ways to create additional guaranteed income** – An Eagle Strategies Financial Advisor can help you assess the pros and cons of various income generation solutions—from purchasing an income annuity to building and maintaining a laddered bond portfolio. There are also a number of Social Security claiming strategies that you may want to consider, depending on the age you plan on retiring and your available assets. For example, simply delaying your retirement age a few years (from age 66 to age 70) could not only provide you with four additional years to save, but also dramatically increase your monthly Social Security income to 132% of your "full retirement age" benefit. Alternatively, you might want to consider accessing the cash value of any permanent life insurance policy you own in order to delay claiming Social Security benefits or to allow your retirement savings to continue growing tax-deferred for a few more years.

3. **Implement strategies to minimize taxes in retirement** – Aside from the value of their real estate, it's common for most people to have the lion's share of their wealth tied up in tax-deferred 401(k) plan accounts and IRAs, with little savings in taxable or tax-free accounts. Having a thoughtful "multi-bucket" allocation across all three of these account types, however, provides you with far greater flexibility and choice when it comes to converting assets to income in a tax-smart manner. By drawing income from a mix of pre-tax and after-tax accounts, you can create a short- and long-term tax efficient plan. After-tax investment accounts have a step-up in basis when you die, so loved ones who inherit these assets will receive additional tax benefits. Other tax-managed investing strategies you may want to consider include assessing the potential benefits of converting some of your traditional IRA assets to a Roth IRA (depending on your current and expected future tax bracket, as well as liquidity available

to pay up-front taxes for the conversion). Additionally, make sure you take time to fully understand the tax treatment associated with any decisions you make regarding when to claim Social Security benefits.

4. **Don't get overly conservative with your asset allocation** – Many people still cling to the conventional wisdom that you should become increasingly conservative (moving more and more assets from stocks into bonds) as retirement gets closer. However, that was guidance from the 1950s and 1960s when people had large guaranteed income from employer pensions and people didn't typically live for 30 years in retirement.

   While it's certainly true that you may want to be more conservative with assets you'll likely access in the early years of retirement, there's probably no need to shy away from equities with assets you don't anticipate having to liquidate for a decade or longer. Of course, market returns are especially critical during the first few years of retirement. Poor returns early in retirement can greatly impact the ability of your savings to last. But these concerns may potentially be better addressed by adding income guarantees (e.g., through the addition of an annuity) than by becoming overly conservative in your portfolio allocations.

Whether retirement is right around the corner or a decade out on the horizon, the sooner you begin to think about income planning, the more options you'll have at your disposal. By following this simple, structured approach, you and your advisor will be better able to align income and expenses (including all-important healthcare costs), identify any income shortfalls that need to be addressed, and explore solutions that may help to reduce or eliminate these gaps.

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