



Van Landowski

Your Practice

Your retirement nest egg: Are you creating a reliable stream of income?

Van Landowski, SVA Planners, Inc., Registered Investment Advisor

You're following all the financial experts' tips on saving for retirement and building a sizable nest egg along the way. But before you make the move to retire, don't forget to consider life expectancy in your calculations.

The general rule of thumb tells us that we should expect to spend about 20 years in retirement. However, if you retire at age 65, you have a 50% chance of living beyond age 85 and up to a 40% chance of living to age 90. Unfortunately, this means more and more retirees are finding themselves with a completely depleted nest egg when they need it most.

Many older Americans are not integrating the idea of unexpected events into their retirement income plan. This may include surviving longer than expected or the effect of market losses while drawing an income from assets. The combination of these types of events could spell disaster for your retirement sustainability.

Smart Investors Expect the Unexpected

People often assume that their portfolio will earn a constant rate of return from the time that they retire

Based in Brookfield, WI, Van Landowski is a fee-only financial consultant with SVA Planners Inc., Registered Investment Advisor. For more information, contact Wisconsin Medical Society Insurance and Financial Services, Inc., at 866.442.3810.

until death. Even many well-meaning financial plans erroneously use this assumption in calculating projections throughout the retirement years. However, the past five years of market turbulence alone proves this assumption wrong. It may take only one or two years of depressed market returns to spell trouble for your nest egg. In addition, down years in the market will have a double-whammy impact on a portfolio. Not only will your portfolio lose value because of the negative returns, it also shrinks because of your need for withdrawals. This all means that you have less money to benefit from a market rebound or less chance to recoup your losses.

Even in a bull market, people are generally taking distributions from their portfolios that are too high to sustain withdrawals throughout their life expectancy. If you have accumulated a retirement asset base of \$1 million, you may feel like you will never run out of money. However, given average market returns, taking just a little over an 8% distribution may deplete your retirement assets in as little as 10 years.

As retirement looms for a new age of retirees—those who will not have the peace of mind or luxury of a guaranteed stream of income for life from a traditional pension plan—new strategies are needed to help ensure a reliable stream of income for retirement.

Incorporate Sustainable Withdrawal Strategies

In order to generate just \$75,000 of annual income (using traditional investments and accepted sustainable withdrawal rates) an investor needs a portfolio of about \$1.5 million. Yet, most people nearing retirement believe they can safely draw \$100,000-\$150,000 from this \$1.5 million portfolio (6%-10%) before running the risk of depleting their retirement savings. Because many soon-to-be retirees expect to earn an average rate of return of between 6%-8%, they believe that if they live off of their earnings alone, their principal will always be maintained. Unfortunately, the stock market will not post 6% returns every year for 30 years. And because of this, your withdrawal rate will have to be much lower. Although it is shocking to many people, sustainable withdrawal rates will need to be closer to 3.5% or 4% of your assets (increasing each year to account for inflationary concerns).

Re-evaluate Your Asset Allocation Strategies

Proper asset allocation is always critical, but in retirement it is imperative. For most investors nearing retirement, an all-stock portfolio no longer make sense. Yet, a low-risk portfolio dominated by cash and bonds may provide returns too low to support inflation-adjusted withdrawals over a 20-30 year period.

While there are no hard and fast rules to asset allocation, most financial experts recommend that investors combine several investment strategies. Start by evaluating your risk tolerance in relation to the allocations in your stock portfolios. At the same time, don't forget to consider building a solid foundation of secure and lifetime income payments from other appropriate financial products, such as bonds, fixed annuities, or reverse home mortgages.

Any successful allocation strategy must also include a plan for drawing down on the assets that you have accumulated. First, tap into your assets that have already been taxed. Next, move on to appreciated stock portfolios held

within taxable accounts. Once these accounts are depleted, start utilizing your tax-deferred accounts, such as your 401(k) and traditional IRAs, saving your tax-free accounts, such as municipal bonds and Roth IRAs, for last. Remember: controlling your tax exposure early in the withdrawal years will have a significant effect on preserving your capital and extending your purchasing power through retirement.

Conclusion

According to a recent study by Prudential, eight out of 10 people nearing retirement indicated that a guaranteed stream of income during retirement is their number one financial goal. Yet a vast majority of these individuals have no idea how

to convert their nest egg into a "retirement paycheck." This sad fact is a common theme across age, gender, education, and income status.

While the task at hand is to turn savings into a reliable stream of income that can withstand inflation and other unforeseen events for 20 years or more, income-generating techniques are often not well understood. If you are overwhelmed by your retirement plan, a financial consultant, who is committed to providing you with unbiased recommendations in the accumulation and retirement stages, could be just the answer. By combining the right investment strategies and working closely with a qualified advisor, you will greatly reduce your risk of depleting your assets too soon.



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