In an ideal world, when we’re ready to retire, we’d bid our co-workers farewell and do a few laps in a pool of cash (not unlike Scrooge McDuck on his daily money swim). In reality, there’s a little more planning involved to ensure that your cash flow doesn’t end at the same time your paycheck does. A financial advisor who specializes in retirement can help you create and manage your income when it comes time to draw down the funds you’ve been saving your entire working life.

You’ll want to start this process several years before you deposit your last paycheck, so that you’ll feel confident your retirement income will last for decades (some estimates suggest your retirement could last 20 to 30 years, given longer life expectancies and a greater emphasis on healthy living). That means you’ll need to structure your income in a way that will more than cover decades of housing, food, healthcare costs, gifts for the grandkids, entertainment, transportation, haircuts and Wi-Fi service, among other things.

Replacing your paycheck
Creating a steady income stream in retirement is a little different than receiving a salary every two weeks. There’s no one major source of cash. It’s a combination of various sources that sustains this stage of your life, including pensions, annuities, Social Security benefits, dividend-paying stocks, interest-yielding bonds and employer-sponsored retirement accounts, just to name a few. A knowledgeable advisor can help you consolidate these disparate streams into a cash flow that makes sense for your desired lifestyle and long-term goals.

The first step is identifying the sources of income you can count on, then talking with your financial advisor to determine how much of your retirement needs will be covered by those more reliable income sources (for example, the Social Security payments mentioned above). Any assets left over will then be available to pay for your wants. However, if you need more income to cover the basics, you’ll likely need to tap into additional sources, like:

- Individual retirement accounts (IRAs)
- 401(k)s
- Pensions
- Other personal savings
- Income-producing investments, such as bonds that provide fixed income, dividend-yielding equities, real estate and annuities

Even if you have more than enough saved to take care of your family’s needs, that doesn’t mean you should stuff all your cash into a mattress. It may be smarter to take out only what is necessary.

TIP

A good rule of thumb is to structure an income stream that replaces about 80% of your pre-retirement income. New retirees can use up to 130% of what they were making in the more active years of early retirement.
Q&A

When you meet with your advisor to structure your personal retirement income strategy, be sure to get answers to these questions:

1. How much money will you need to cover your expected necessary and discretionary expenses (i.e., your needs and your wants)? And for how long?
2. How will you pay for healthcare, long-term care or increases in insurance premiums?
3. What age do you want or need to start Social Security benefits?
4. What will your new tax bracket be and will taxes influence your investment choices?
5. How will market risk and inflation impact how much you can withdraw?
6. How will you manage required minimum distributions (RMDs)?
7. How should you invest to maintain sufficient income?
8. In what order should you tap taxable or tax-deferred accounts in order to maximize income and minimize taxes?
9. Does your asset allocation align with your risk tolerance and time horizon?
10. Will it simplify your life to consolidate multiple retirement accounts?

TIP

Investors should clearly understand that not all income products are suitable for everyone and that trade-offs may need to be made. Discuss any and all tradeoffs with your advisor before committing to an investment.

Creating a strategy that works for you

Part of that planning is developing a financial and retirement income plan that works for you. You’ll likely need to rely on a combination of savings, fixed income and equity investments to provide a predictable current and future income stream.

The fixed income part of your portfolio can create a solid foundation for the post-employment phase of your life, while also offering an acceptable amount of risk, stable returns, predictable cash flow and possible tax advantages. A financial plan that includes individual bonds and other fixed income products can help provide a level of confidence as you draw on earnings generated by your lifetime savings. An advisor with fixed income expertise can determine which products and structures (short/long barbell investments, laddered bond portfolios, laddered CDs) make the most sense for you and your family and help you monitor and adjust your allocations as your needs continue to evolve.

Although fixed income can provide sustainable income, a more diversified approach may include dividend-paying equities to provide income and a component of potential capital appreciation. Simply put, your portfolio needs to keep growing to sustain withdrawals from the first day of your retirement until the last.

Financial planning in or near retirement isn’t that different from any other time in your life. You’ll still need to plan for your short- and long-term goals and monitor your plan regularly to ensure you’re on track to achieve them. The main difference is how you manage the various income streams to create a steady flow of income to cover your expenses when you’re no longer working full time.

The good news is your financial and tax advisors can help you structure yours in a way to maximize your current and future cash flow, while minimizing taxes. And, they can help you implement a systematic strategy to give your money the best chance of lasting as long as you need it.