

Retirement Income Planning

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When considering retirement, currently retired or asking if you can afford to retire, a sound retirement income plan provides answers to many of the questions regarding your retirement years.

The sources of retirement income are Social Security, Pension income if you have one, IRA, 401k, 403b, or 457 distributions, rental income, other asset income. The challenge is when to draw these funds to support your lifestyle and how to minimize taxes while you are doing that. For questions regarding Social Security start with the Social Security white paper available at contact at the bottom of this document.

Social Security and Pensions are life annuities that pay a specific amount each month as long as you live. These payments become a major part of your retirement income to replace your paycheck. We call this the retirement paycheck. For those that have cost of living that exceeds this paycheck you will need to establish additional income to make your retirement paycheck livable.

Additional income may come from IRAs or other retirement plans. The investment industry suggests that a 3% distribution is on the upper end of sustainable income for your life time. Modern Fixed or Fixed Indexed annuities offer lifetime incomes of 5-6% depending upon the age you choose to start that income.

You will also want to have funds and or income available for the fun things during retirement; we call this your retirement playcheck. This income will also come from other assets such as IRAs or retirement plans.

For you to have the confidence that you are ready and able to retire comfortably, you will need to have these incomes planned out and positioned to last a long time. It is also very important to plan for the surviving partner of a couple, thus avoiding poverty in later years.

Consider the following example:

A Couple ages Male age 66 income 70,000, female age 65 income 50,000. They want to retire this year with 75% of their current income (7,500 per month).

	HIS	HER	Total
Social Security	2,100	1,550	3,650
Pension	0	2,250	2,250
Total	2,950	3,800	5,900
Additional funding needed			1,600
Total income needs			7,500

The additional income need is 1,600 per month. Using an investment portfolio at 3% distribution would require a total of \$640,000 to produce the income needed to meet your income requirement. Using an annuity at 5.5% would require 350,000 to produce the same income.

Assume for a minute that the total funding from investments at 3% were repositioned to use annuities first to meet the income need then leaving the balance in investments. It would require \$350,000 to produce the needed \$1,600 per month above social security and pension incomes. Also assume that if you had the \$640,000, then drawing income from the 350,000 to meet your lifestyle needs would leave the remaining \$290,000 for investment and future income increases or special expenses as they arise.

For your **free retirement income plan** contact us at www.heartlandfinancial.net or 319-277-1059.