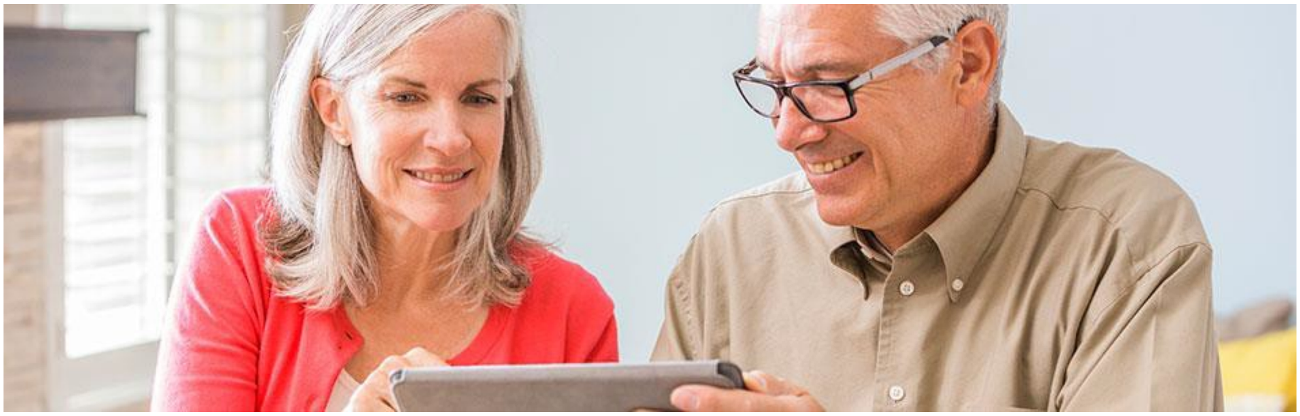


Diversify Your Retirement Income

Branching out allows your savings to weather different seasons.

April 27, 2017

There are many factors to consider when it comes to planning for a secure and fulfilling retirement – you'll have to think about everything from how you'll fill your time to where you'll live and how you'll pay for it all. One solution is retirement income diversification.

Similar to asset allocation among your investments, the approach advocates establishing independent (i.e., noncorrelated) streams of income that could provide needed cash flow under a variety of circumstances. The idea is to put your eggs in several baskets, since none of us know what the markets will do over 20 to 30 years of retirement, much less how long we'll need our money to last. While it may be nearly impossible to account for all the variables, we are able to establish different sources of income in the years leading up to retirement, and test them against various scenarios to determine if our planned income will hold up against economic challenges.

Start with the Core Sources

Start with your streams of reliable retirement income that will serve as your main source of cash flow. This could be one or any combination of sources, including Social Security benefits, pension payments, employment income (most likely part-time work since you'll be retired) or annuity payouts. The key is identifying the sources of consistent income that you can use to cover your necessary expenses, such as mortgage payments, groceries, utilities, insurance, transportation and healthcare.

Of course, what's essential will be different for every retiree. For example, you may view donating to charity as a necessity, while someone else insists on including their tennis club membership among needs because it provides an avenue to physical and mental health through social interaction and exercise. The point is, decide what your retirement needs truly are and ensure you have a variety of stable income sources to meet those needs.

Then consider how those more reliable income sources will perform in “normal” markets, recessions or periods of high inflation. For example, Social Security, which generally includes a cost of living increase each year, should hold steady in different economic environments. Its resilience is another reason why it pays to maximize this income stream if you can. Smart claiming strategies allow you and your spouse to maximize your overall household benefits, so work together with your advisor to determine when and how to start receiving benefits.

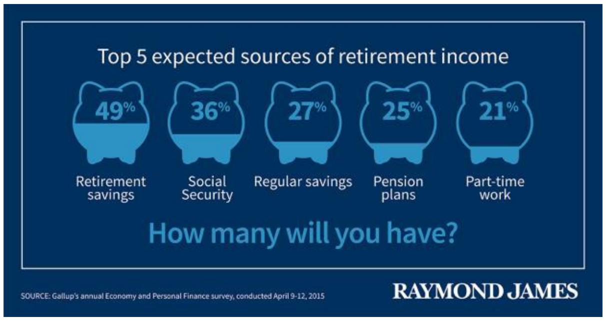
> The key is identifying the sources of consistent income that you can use to cover your necessary expenses.

Income from a portfolio of investment-grade bonds may be able to provide predictable cash flow as well, with municipals delivering the added benefit of exemption from income tax. Pensions and annuities do well too, with the exception of inflationary years because the payouts may not be adjusted accordingly. Your advisor can help you analyze each one and run hypotheticals to help you gain confidence in their ability to withstand a long haul.

Graft on the Reserves

If your needs aren’t quite covered by your main sources of income, you may have to turn to other income to fill the gaps. These are the assets you specifically set aside to fund your retirement and supplement your reliable income. Funds from your employer-sponsored 401(k), IRAs, checking and savings accounts and CDs, as well as dividends and interest from your investment accounts can be diverted to pay for the essentials mentioned earlier. Stocks, for example, have historically gained ground over the long term and may be able to outpace inflation, but a downturn can take a toll. As you identify a variety of income, be sure to talk to your advisor about the most tax-efficient way to draw from these accounts.

And if your needs are already covered by your reliable income, you can use the extra bounty to pay for the good stuff – the wants and wishes that reflect your personal vision of an ideal retirement. That may be exploring the Great Barrier Reef, spending time with your newest grandchild, restoring a vintage sailboat, as well as the simpler pleasures of dining out, learning a new language, catching a show or an impromptu weekend away. The point is to use some of your retirement savings to live the retirement you’ve envisioned for yourself and your family.



Branch Out

At some point, you may wonder if you have enough planned retirement income to cover both your needs and wants, especially after you start making withdrawals. If you're not sure, talk to a financial advisor about all the pieces that make up your net worth. Many people neglect to factor in potential profits from selling their business, their insurance policies, cash on hand, forgotten 401(k)s tied to previous employers, and other assets (e.g., inheritances) as part of their personal retirement income plan.

If you still think you'll need more sources of income, consider diversifying your income even further, perhaps through cash value life insurance, part-time work or by investing in additional fixed income investments or high-quality dividend payers.

Keep in mind, the point is not to work several part-time gigs to create extra income, but instead to develop larger sources that fit within your comfort zone and lifestyle. For example, writers may choose to create a blog and focus on promoting it in order to gain advertising revenue, or perhaps earn royalties on a published piece. Crafters could sell their wares online, and those with second homes might choose to rent them out to generate additional income. It may even make sense to tap into your home equity in some cases.

Bottom line: Think creatively about your income options and work with a knowledgeable professional to determine what works best for your situation.

Blending It All Together

All this is to say that a diversified portfolio that provides diversified income may serve you well over a long (and hopefully prosperous) retirement. The key elements – reliable income, retirement assets, needs and wants – work together to create a clearer understanding of your financial picture and the income sources that will be used to cover retirement expenses.

Be sure to consult with your financial advisor about how to best structure your assets in a way that manages risks, diversifies your investments as well as your income, and seeks to provide a reliable retirement paycheck. One that has a greater chance of lasting as long as your retirement will.