Guide to Retirement Income

7 Strategies to Rethinking Retirement Income through COVID19

Ulin&Co.
WEALTH MANAGEMENT

Plan Your Best Life®

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Retiring on your own terms and not outliving your savings takes a good amount of time, work and planning to figure out, especially with many people experiencing a retirement lasting much longer than their working years. If it were an easy, simple process, there would not be over 250 million google search results for retirement income planning.

As COVID19 challenges our mental and physical health, it is also quietly reshaping how we will face retirement and old age. Many people we talk to that are in or nearing retirement are greatly concerned about market volatility, low interest rates, rising government debt and the potential for higher taxes and lower social benefits.

In fact, the ongoing pandemic is making people “rethink retirement” altogether from money to lifestyle goals. The break from routine over the past year has been frustrating but has also freed up time for individuals to evaluate their investments, retirement goals, household budgets and estate plan essentials.

Living for 20 or 30 years without a paycheck should include a long-term strategy to build up required assets during your working years, to then “flip the switch” over to a pension-like “income for life” plan that is repeatable and keeps up with inflation over time.

If you have any questions on this material or would like to set up a no-obligation retirement and investment check up with Jon Ulin, CFP®, CEO, please call (561) 210-7887 or visit us online at ulinwealth.com.

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Retirement income planning is a multistep process that evolves over time. The following seven strategies can help you to get on track and stay on track for your retirement and to make important financial decisions with greater confidence and certainty. They are not meant to be one-size-fits-all techniques, but guideposts to help you along the way.

Table of Contents

Financial Planning

1. **Create a Retirement Plan**
2. **Determine Your Savings Number**
3. **Tax Planning Strategies**
4. **Social Security Strategies**

Wealth Management

5. **Determine Your Asset Allocation**
6. **Create a Retirement Paycheck**
7. **Investment Income Products & Strategies**

Financial Planning

1. Create a Retirement Plan

Are you confident that you will end up enjoying a comfortable ride through retirement? If so, you're in the minority. Only **18%** of Americans are very confident about their future retirement prospects according to a 2018 study by the Employee Benefit Research Institute. Concern about inadequate savings is widespread among those approaching the point where they bid farewell to working life after 30 years of alarm clocks, bosses and deadlines. COVID and an early retirement has further fueled these concerns.

While you may utilize google maps or even a traditional paper map before driving across unfamiliar territory while on vacation, many people approaching retirement are "winging it" and driving blind. Therefore, your first course of action should be to develop a written comprehensive retirement plan that outlines where you want to go and how you plan to get there. Painting the whole picture is exponentially more powerful than just putting some numbers into an online retirement calculator.

A comprehensive financial plan can help determine the realities of your current financial situation while holding yourself accountable for your actions – like a diet or fitness regime. By writing down your financial goals on paper you may develop a more realistic picture of where you stand to achieve your objectives by a specific retirement age, while benchmarking your progress along the way.

Millionaire Benchmark: The book "Millionaire Next Door" offers a rudimentary formula for determining whether you have a net worth that is commensurate with your age and income. Simply multiply your age times your income and divide by 10 to determine your number. (**age X income/10**).

Note that today's "new" retirement does not seem to "mark an end to most people's work life" even through COVID. Many retirees work part time for extra income. Some create a new business or venture just to "stay active "and busy in their golden years.

Five to ten years from retirement:

Many of the standard rules of thumb have not greatly changed for todays' retirees, but there may be added stress from retiring earlier than planned and a greater emphasis on living at home.

Make sure to write down your goals and dreams for the "2nd Act" of your life. Be specific down to your where you plan to live, along with planned hobbies, health, travel, friends, and family goals. What do you want to do with all your time in retirement? Maybe you will want to train for a 5K, travel more, start up a small business, or take up a dance, music, art, photography, or yoga class.

Key parts of your retirement plan may include evaluating the following ten items:

(1) Expected annual cash flow accounting for inflation (what may change?)
(2) Retirement Lifestyle goals (Travel bucket list, fitness, hobbies, and related costs)
(3) Retirement income strategy (household income sources and amounts) (Gap planning)
(4) Work (Will you need or want to work as part of the gig-economy or start a business?
(5) Social Security enrollment options
(6) Balance sheet planning (mortgage and debt planning) (will you downsize or relocate?)
(7) Investment policy statement (IPS) (risk tolerance and strategy) (products and investments?)
(8) Tax planning (strategies to help minimize taxes)
(9) Estate and legacy planning (wills, powers of attorney, advanced planning)
(10) Insurance planning (health, life and Long-term care insurance)

You may still have time to increase your savings, consolidate your past employer and individual investment accounts, consider tax strategies (such as Roth IRA conversions), liquidate any "illiquid" assets, downsize your home (if part of your plan) and implement an actual retirement income investment plan the year you plan to retire.

2. Determine Your Savings Number

Targeting your savings number (knowing how much you will need in liquid, lump sum savings) as part of your total net worth, can help you better determine your shortfall if you are 5-10 years from retirement along with actionable items to take to help get on track.

Think of retirement income planning like a reverse-mortgage. You will need a certain bucket of money to "pay-out" a perpetual income stream for 30+ years from a predetermined principal, while adjusting over time for inflation, taxes, market risks and the unexpected.

Savings Factor Rule: Consider the following "savings factors" rule of thumb. Aim to save at least **1x** your annual income by age 30, **3x** by 40, **6X** by 50, **10x** by 60 and **13X** to **15X** your annual income by age 65. By example, someone earning $100K/ year would shoot for $1.5M in savings by age 65.

4% Income Rule: Consider that with the "4% Rule" as a rudimentary income tool: every million dollars in savings can potentially provide about $40K/year of income from a diversified portfolio while adjusting up each year for inflation.

Determine your savings 'number' by the 4% rule: Divide your annual portfolio cash flow goal by **4%** ($60K/ 4%) or multiply by **25** ($60K X 25).

For example, if your annual retirement income goal is to replace $60K per year of your gross salary at age 65 in addition to Social Security and other income resources, you would need approximately $1.5 Million dollars in lump-sum savings.

80% Rule: Many advisors note to consider the "80% rule" which gets you to the same place. This rule states your gross annual retirement income may only need to be 80% of your final year's employment income, with about 20% accounted for by Social Security. For example, someone with $80K annual income would need $64K in gross retirement income per year. ($80K x 80%)

Five to 10 years from retirement:

Moving from an "accumulation Phase" to a "withdrawal Phase" is one of the most significant financial changes that comes with retirement income planning.

Determining your income "gap":

(1) **Money in**: Write down your planned annual gross retirement income goal while considering inflation and taxes. Your household expense in retirement may vary.

(2) **Money out:** Next back out other sources of planned future retirement income sources (pension, rental real estate, Social Security, part-time work.) This will help you to determine your "income Gap."

(3) **Do the math:** Either divide your income gap by **4** (Gap/4) or multiply by **25** (Gap X 25) to determine your lump sum savings number goal as noted above.

You may need to ramp up your savings to 20%-30% of your gross income (if possible) as you get closer to the retirement "end zone." If you are part of an employer 401(K) program, you may already have your "savings on automatic" in addition to receiving an employer match. Save any additional discretionary cash flow to "after tax," liquid taxable accounts and invest accordingly to your goals and risk tolerance.

3. Tax Planning

Many people that are "good savers" may have saved the lion's share of their nest-egg in "before tax" employer savings accounts (such as a 401K) with little available cash in liquid, taxable bank and brokerage accounts. This does not leave much leeway in retirement for immediate (non-taxable) liquidity needs nor much maneuvering ability for future tax and retirement income distribution planning strategies.

If you think income taxes may go up over the next decade, reviewing and implementing tax minimization strategies can help lower future tax obligations. In other words, consider that about 400K of a million-dollar retirement account may not be going to your retirement goals or to your beneficiaries, but to Uncle Sam. While we may not have "Regan-era" 70% Federal income tax rates any time soon, many people are concerned that higher estate, income and capital gain tax rates are on the horizon.

Five to 10 years from retirement:

Utilize both **"pre-tax"** and **"after-tax"** savings buckets to create greater liquidity and a more balanced tax structure of savings before you retire, while providing greater flexibility to manage taxes and distributions in retirement.

Consider the 60/40 Rule: When saving for retirement, consider earmarking **60%** of your cash savings from every paycheck to "pre-tax" (employer and individual retirement account) buckets for tax deductions and tax-deferred growth, and **40%** of your cash savings into "after-tax" savings buckets.

After tax savings can be directed first to a Roth IRA (if you qualify) as well as taxable brokerage accounts to be invested accordingly to your goals and risk tolerance. In other words, don't think of retirement savings as solely 401K and other pretax retirement savings accounts. Some investors may also utilize insurance and annuity accounts for "after tax" savings (and tax deferral) but some of these strategies can provide other obstacles, from short term liquidity (penalties) to taxable income on gains upon distribution.

Secure Act: Review how the SECURE ACT may affect you and your beneficiaries regarding your retirement accounts. Required minimum distributions have changed for "non-spousal" account inheritors. The SECURE Act requires beneficiaries withdraw all assets of an inherited account within 10 years. (see irs.gov.)

Your financial advisor can work with you and your tax professional to provide strategies to help lower the tax "bite' for your non-spousal beneficiaries, including potential strategies such as Roth IRA conversions along with advanced estate planning and insurance planning techniques.

4. Social Security Strategies

Insecurity over future Social Security benefits is growing. Social Security is a pay-as-you-go program, which means the government writes checks to today's beneficiaries using payroll taxes collected from today's workers.

According to the actual 2020 Annual Report of the Board of Trustees which oversees the Federal Old-Age and Survivors Insurance (OASI) that covers retiree benefits, the trust fund is projected to run out of money in 2034, fueled in part by the massive number of boomers entering retirement and living well into their 80's and 90's, along with fewer birth rates and people paying into the system.

Whether Social Security is a small or greater part of your monthly retirement paycheck, plan smartly as you only have one chance to get it right.

You can qualify for Social Security by compiling credits when you pay Social Security tax on your earnings. You can earn up to four credits per year. Workers qualify for Social Security retirement benefits

when they reach 40 lifetime credits (10 years of work.) Your annual payment amount is determined by how much you earn while working, and by when you elect to enroll and start receiving your payments.

Social Security provides many different enrollment options for benefits depending on a person (or couples) specific goals and financial situation. Taking benefits too early on at age 62 could "cost" you thousands of dollars of "lost" income over your retirement years if you are blessed with longevity. Delaying benefits too long till age 70 may not always be the "right" or best decision either.

Rule: The full retirement age was 65 for many years, but it is currently 66 years and 2 months and is gradually going up to 67. Many people we speak to are concerned that the US government will push out the full retirement age to 70 and may cut benefits down by at least 20% or more.

Benefit Variations: Retirement benefits are just one type of Social Security benefit. There are also survivor benefits, spousal benefits and disability benefits, all of which have their own qualification criteria.

Five to 10 years from retirement:

Visit the Social Security Administration to help get you on your way to making the best decisions for your retirement, disability, survivors and Medicare enrollment options.

Consider:

- **Timing Matters:** You can forfeit about **7%** of your annual benefits per year if you elect to take Social Security before your full retirement age (FRA). For example, if your FRA is 66, you would forfeit about **28%** in annual benefits if started at age 62. With benefits increasing 7% each year between age 66 and 70, it may make sense for some clients to pull money from their savings accounts (or continue working) and not take Social Security until age 70.

- **Non-Working Spouse:** If a non-working spouse applies for her spousal benefits at FRA, by example, her benefit will be **50%** of her husband's PIA (primary insurance amount). If she applies at age 62, her benefit will be **35%** of his PIA. If she applies between the ages of 62 and 66, the percentage will be prorated. Spousal benefits are not available until the primary worker has filed.

- **Beneficiary Benefits**: A lower-earning spouse could elect to collect Social Security benefits early on at age 62, and the higher-earning spouse could delay claiming benefits for as long as possible, up to age 70. If the higher-earning spouse dies first, the lower-earning spouse will be entitled to 100% of what the higher earning spouse received.

- **Divorcee Benefits:** A divorced spouse that was married for at least 10 years can receive Social Security benefits under her former spouse's earnings if she is 62 or older, is unmarried and she is not eligible for an equal or higher benefit based on her own earnings. It is not necessary for the former husband to apply for benefits as long as he is at least 62 and the couple has been divorced for at least two years.

Wealth Management

5. Determine Your Asset Allocation

The first rule of retirement income planning according to Ulin: Never run out of money and outlive your savings. The second rule is: Never forget the first rule. It can be a balancing act to invest for income and capital preservation through a 30+ year retirement while at the same time positioning your portfolio for moderate growth while working to keep up with the deteriorating effect of inflation and taxes over time.

A **zero-risk** portfolio in cash, CD's and short-term Treasuries may erode the value of your portfolio overtime due to the deterioration effects of inflation and taxes. Consider that with just a 3.4% inflation rate, your cost-of-living adjustments (COLA) may increase by 50% every 10 years and double every 20 years.

In other words, a "cool" million dollars today at age 65 may only be worth half as much ($500K) by the time you turn 75 due to the decrease in purchasing power. Plus, if you are withdrawing 7% per year from your portfolio and barely earning 1%, you could undoubtedly run out of money within 10-14 years.

A **higher-risk** equity weighted portfolio (even if producing stock dividends) may end up derailing your retirement if you lose a big portion of your nest egg in a crash and don't have the time (or stomach) to earn back those losses - while also continuing to take distributions while the market is down.

Rule of 100: When considering your risk tolerance and related asset allocation, the maxim to **"subtract your age from 100"** to estimate how much of your portfolio should be invested in stocks can be a rough estimate to consider, but a good starting point to develop your investment policy statement. Another way to state this rule is to "invest your age in bonds."

Many retirees we met with in the early 2000's (after the huge run-ups in the 80's and 90's) were invested heavily in cookie cutter "income portfolios" weighted in many individual high dividend paying bonds plus a large quantity of individual preferred and dividend paying stocks with an emphasis on real estate, utility, staples and telecom stocks (paying near a 6% dividends). This strategy may help to pay the bills but offers little in the way of diversification.

These retirees from two decades ago seemed to have little concern about stock market, sector, industry or interest rate risks that could eventually derail them. Furthermore, managing and tracking many pages of individual bonds and securities takes time and effort.

With today's minimal interest rates, low taxes, an aging world population and the growing technology revolution, having a strategic "all weather" approach is key. In our opinion, today's retirees benefit from a more globally diversified wealth management approach while utilizing both active and passive fund strategies designed for a combination of income, growth and capital preservation.

Five to 10 years from retirement:

Create your **Investment Policy Statement** (IPS.) An IPS is a document drafted between a financial advisor and a client that outlines general strategy. This statement should cover the investment goals and objectives of a client and describes the products and strategies that the manager should employ to meet these objectives. Specific information such as the client's age, investment objectives, asset allocation, risk tolerance, and liquidity requirements are included in an investment policy statement.

Your IPS and ongoing meetings with your advisor should also contain all current account information, current allocations, how much has been accumulated, fee's, distributions and how much is currently being invested in various accounts along with specific performance information.

Five to 10 Years Out: Consider implementing a "balanced" risk portfolio based upon your age, goals and time till you retire. Invest in a liquid, "fee based" portfolio of low-cost bond and stock active and passive

fund investments (while being globally diversified) that meets your goals for capital appreciation before you retire (growing your wealth) while at the same time providing downside strategies to help withstand market volatility and crashes.

One year out: One year before you retire, start getting your retirement and taxable brokerage accounts and portfolio organized, consolidated, and allocated according to your retirement income goals and investment objectives. This may involve modifying your accounts down in risk and allocating different accounts for different goals (cash bucket, income bucket, growth bucket.) Finally, the quarter or so before you retire, consider to "**test drive**" your income portfolio to start receiving monthly income "paychecks" from your portfolio.

6. Create a Retirement Paycheck

A top concern and priority for most retirees is keeping up with the cost of living and not outliving their savings. Typical "rules of thumb" for portfolio income when developing a retirement paycheck do not account for new economic realities of today's historically low interest rates, high market volatility and the increase in longevity with many people living well into their 80's and 90's.

Spending 10%/ year from your portfolio (and cash savings) may result in depleting your money within 10-15 years and is poor planning. Instead, consider following the "4% rule" for your investment income goals as a rough starting point to developing portfolio income as part of your retirement paycheck, which may also include Social Security, pension income, annuities, part time work, real estate and or other passive income sources.

4% Rule: William Bengen first articulated the 4% withdrawal rate as a rule of thumb (back in 1998) for "safe" withdrawal rates from a diversified portfolio to help reduce the chances of outliving one's savings; it is eponymously known as the "Bengen rule".

The 4% rule would suggest to take out 4% every year from your portfolio and adjust that number up each year with inflation.

There are many other factors to account for in addition to the desired distribution rate- including your age, financial goals, expected longevity, tax implications and stock market conditions the year you retire and ongoing.

Note: Given today's low bond yields and modest projected returns for stocks in recent years, consider that the 4% rule might not provide the same "margin of safety" against running out of money as it has for past generations. We suggest investors, especially those just entering retirement, set their distribution goal and rate closer to **3%** while taking a more "flexible" and total return approach to retirement income.

Five to 10 years from retirement:

Plan on creating and maintaining a flexible distribution strategy for your retirement "paycheck" with a more reasonable 3% average distribution rate. You may consider to "give yourself a raise" during bull market years and to scale back or to utilize your cash savings a bit more during bear markets and recessionary periods.

As we have been in a low interest rate environment for years which may continue over time, consider employing a total return investing approach to developing portfolio income (distributing equity dividends and capital gains plus bond interest income) over an income-only oriented approach to generate cash flow.

7. Investment Income Products & Strategies

Generating income without going to work tends to be a fuzzy concept during our working years. Nor is investing and or creating retirement income something taught at home, school or college.

We all may have a general idea of how much income we may need each year in retirement but are not exactly sure how it will happen. Turning your nest egg into a steady flow of repeatable, lifetime retirement income should come with some work, thought and effort up front.

Developing multiple sources of cash flow can help safeguard your income if interest rates fall, the market crashes or one of your investments delivers less-than-expected returns or experiences loss of principal.

For many couples and individuals, retirement income funding does not rely on a single source of income. Instead, their cash flow comes from a combination of sources, which may include everything from cash and CD's, annuities, a pension, Social Security, an inheritance, real estate and other income-generating investments.

While we continually advocate for retirees to employ a liquid, low cost, strategically managed portfolio of active and passive fund strategies as the core of their retirement income plan while utilizing a "three bucket" approach, (see below) there are a ton of opinions and investment products being "sold" today that are pitched to investors as a "market hedge" or "stock market alternative" to traditional investing.

While it may make sense for some investors to utilize unique insurance, brokerage and alternative based products for small portions of their retirement portfolio (before and after-tax investing) just remember the maxim that there is no such thing as a free lunch.

When giving up "stock market risk" for products typically pitched at a steak-dinner seminar, you may be inheriting other known or unknown risks when investing- such as interest rate, sector and liquidity risk, if not the risk of getting your principal back. We remind investors to always consider the return "of your money" in as much the return "on your money" with every new product purchased.

Five to 10 years from retirement:

A combination of withdrawal rates and market risks, especially in the first 10 years out, can take a toll on your retirement considering market volatility. This is why retirees face "sequence of return" risk if an ugly bear market takes too large of a bite of your pie near the front end of your journey, whether in bad crashes or bad decades. A 30% loss not made back is equivalent of 5 years of returns and distributions from a moderate -risk portfolio.

Without a defined management, spending, tax and distribution plan in place for drawing down assets in retirement, you could liquidate them at the wrong instant in the market cycle and increase the chance of outliving your savings in your later years. Rather than focus on illiquid, hard to understand investments to develop retirement income, we suggest investors start out by implementing a bucket strategy as follows.

Three Bucket Strategy: The three-bucket strategy provides an approach to structure your before and "after tax"-savings buckets to tackle today's market challenges while meeting your short- and long-term goals through your retirement years.

With a bucket strategy, you could tap lower risk, taxable accounts weighted more in cash, CD's and bonds while leaving your more stock-weighted (tax-deferred) retirement accounts alone during periods of increased volatility.

- **Bucket one:** Maintain at least 12 months of cash reserves equivalent to your "income gap" in retirement to have available for a "rainy-day" fund and to tap during market downturns. Utilize cash, money markets and CD's for part of your cash reserves. Consider also to utilize low cost,

liquid active and or passive high-grade municipal bond strategies for additional return that is tax free.

- **Bucket two:** Invest enough money in your taxable investment accounts in at least a moderate conservative risk allocated strategy for income and some capital appreciation to replace the money spent in bucket 1 each year.

- **Bucket three:** Invest your long term, tax deferred money in a more "moderate" risk profile for income and capital appreciation over time. Up to and through your RMD's (required minimum distributions) after age 70 ½, deposit and reinvest the proceeds net of taxes into bucket #2.

Bonus Section:

Bottom Line: Be SMART!

Our own motto is that "what gets measured gets done." To make your retirement goals **S.M.A.R.T.,** your retirement goals need to conform to the following criteria: **Specific, Measurable, Attainable, Relevant** and **Timely**. Visualize and define your lifestyle goals for retirement "outside the numbers" to better utilize your time and resources productively and to help you get on the path to success.

The cliché pictures of retirees golfing and fishing along with taking endless cruises to the Caribbean has morphed into a more active lifestyle as boomers are 'redefining' retirement.

This is even more true since the onset of the COVID-19 pandemic that may change our behaviors for some time from life to where and how we vacation. Staying active in your golden years can help you to live a more enjoyable life and spend less on medical care and expenses. Our motto is that "your health affects your wealth, and your wealth affects your health."

Most important, consider working with an accredited financial advisor such as a CFP® professional as your trusted "guide" that can help you get your "financial house" in order for the short term while providing a financial plan "blue-print" to get started based on the six key areas of financial planning.

We hope this guide has provide you valuable insight and information.

Jon Ulin, CFP®, CEO
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Disclosures:

This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Loss of principal may occur.

No strategy assures a profit or protects against a loss. Investing involves risks, including possible loss of principal.

Planning your financial future is a significant responsibility. Selecting the right financial advisor to work as your "CFO" and financial advocate is an equally important decision. We invite you to call us at **(561) 210-7887** to schedule a no-obligation consultation.

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NOTES: