

Securing Your Lifetime Income Stream

Bob Carlson
Editor, *Retirement Watch*
800-552-1152

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The Big Challenges

- **The Fed's Zero Interest Rate Policy**
- **Both inflation & deflation are possible**
- **Stock market volatility and low returns across the board**
- **Income tax changes**
- **Possible changes in benefits**

Optimize All Your Tools

- **Social Security**
- **Employer pension**
- **Annuities**
- **Distribution strategies**
- **Taxable investments**
- **Tax-deferred vehicles**

Two Key Points

- **The cost of almost everything will increase**
- **Have a written plan**

Start with Spending

- **Start with a custom estimate**
- **Spending will change over time**
- **Don't forget inflation**
- **Prioritize expenses. What's important to you?**
 - **Medical and long-term care are wild cards**
 - **It's a plan, not a rule book**

Secure Basic Expenses

- **Sources of guaranteed income:**
 - ✓ **Social Security**
 - ✓ **Employer pensions**
 - ✓ **Annuities**

Maximize Social Security

- **Numerous strategies to increase benefits**
 - **Delay beginning**
 - **Coordinate with spouse**
 - **Special rules for divorced, widowed**
 - **Higher-level strategies:**
 - **Claim-and-suspend**
 - **Claim spousal benefits first**

How to Use Annuities

- **Two types to consider:**
 - **Immediate annuities**
 - **Longevity annuities (deferred income annuity)**
 - **Shift the risk of low returns and longevity to insurer.**
 - **Consider inflation protection**

Immediate Annuity Tips

- **Shop around**
- **Purchase age 70 or later to increase payout**
- **Should you wait for higher yields?**
- **Greater protection/control = lower payout**
- **Annuities vs. Personal Investments:**
 - **Certainty vs. potential**
 - **Security vs. control & flexibility**

Using Longevity Annuities

- **The 88%/12% strategy**
- **Plan for only 20 years with other assets**
- **Or late-in-life supplement**
- **No inflation protection**
- **Women most likely to benefit**
- **No legacy available**

Portfolio Distribution Strategies

- **The 4% rule**
- **Flexible or cyclical spending**
- **Yale Endowment Strategy**
- **Put all or most of it in annuities**

The 4% Spending Rule

- **1st year: withdraw 4.2% of value**
- **Subsequent: Increase by inflation**
- **Higher withdrawal rate available when:**
 - **Investments at low valuations**
 - **Different portfolio**
 - **Low inflation**
- **No guarantee portfolio will last**

Flexible Spending Policy

- **Three stages of spending**
 - **Early, pent-up spending**
 - **Middle years**
 - **Later years**
- **Medical expenses could pop up at any time but likely in later years**

Yale Endowment Strategy

- **Set withdrawal rate**
- **Each distribution has two parts:**
 - **70%: Withdrawal rate plus inflation**
 - **30%: Withdrawal percentage times portfolio value**

Yale Endowment Strategy

Example: \$500,000 fund; 5% spending rate.
Withdraw \$25,000 first year. Second year:
inflation was 2%; portfolio declines to \$480,000.

1. First year's spending plus inflation =
\$25,500. Multiply by 70% = \$17,850.

2. Fund value times spending rate = \$24,000
times 30% = \$7,200.

Total withdrawal = \$25,050.

Portfolio Investment Strategies

- **Abandon traditional retirement strategy**
- **Consider:**
 - **Buy-and-hold strategy**
 - **“Buckets” strategy**
 - **Active management or tactical asset allocation. Opportunistic investing.**

Buy-and-Hold Portfolio

- **Need true diversification:**
 - **Investments with low correlations**
 - **Low correlations with major indexes**
 - **Add more asset classes**
 - **Add different strategies**
- **Can use either indexes or active**

Retirement “Buckets” Strategy

- **Also known as liability-driven investing**
- **Safe fund for 2-5 years of expenses**
- **Longer-term, diversified fund**
- **Can break down further**
- **Much like saving for college**

Active Investing

Active Investing

- **Risk management is key**
- **Search for value and emerging trends**
- **Increase and decrease allocation to assets**
 - **Target one- to three-year holding period**
 - **Need a plan to sell or sell signals**

Active Investing for Income

- **Dividend-paying stocks**
- **Preferred stock**
- **Real estate investment trusts**
- **High yield bonds**
- **Master limited partnerships**
- **International bonds**

Invest in the Right Accounts

- **Ordinary income in tax-advantaged accounts**
- **Long-term capital gains in taxable accounts, except:**
 - **Much higher return on capital gain assets**
 - **Lower tax rate in retirement**

Withdraw in the Right Order

- **Generally: Taxable accounts first, tax-free accounts last, except:**
 - **Taxable account return is at least 4% higher**
- **Always manage taxable accounts to minimize taxes**