Your 6 Sources of Retirement Income... and How to Fully Exploit Them Starting Today

A SPECIAL REPORT BROUGHT TO YOU BY

Motley Fool™ Wealth Management

FROM THE DESK OF NICK CROW, CFA
PRESIDENT, MOTLEY FOOL WEALTH MANAGEMENT

Dear Fellow Fool,

There's a common misconception that I find among retirees — as well as those *preparing* to leave the workforce and join them — that once HR cuts you that final paycheck and you walk out the door on your last day of work *ever*, all of your income streams instantly go kaput...

And that from that day forward, you're basically in a fight against time to see whether you outlast whatever money you've managed to stash away up till then.

Nothing could be further from the truth.

Now, just to be clear, I'm not advocating that you run out to the nearest port, rent a 100-foot yacht, and throw a weeklong party in celebration of your retirement...

But there's also no reason to expect that your retirement nest egg is permanently set in stone and will never have any future income streams flowing into it, *either*.

Yes, everybody knows about Social Security and investment gains. But in actuality, those are just a couple of the *numerous* influxes of income you can put to work for you throughout retirement.

Robert Brokamp, CFP®, the lead contributor for our sister company The Motley Fool's *Rule Your Retirement* newsletter, outlines an important list of them in his report, "Your 6 Sources of Retirement Income... & How to Fully Exploit Them Starting *Today*," which is included below.

Whether you're fast homing in on retirement... or you're already there... I think you'll find it to be well worth your time to discover how you can deploy the various income opportunities still at your disposal.

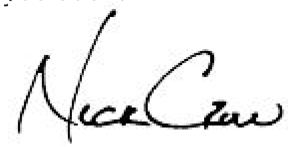
Discover how our team here at Motley Fool Wealth Management can custom-build you a personalized portfolio directly tailored to your particular investment interests, financial goals, risk tolerance, and, of course, retirement status — whether you're nearing retirement or already in it...

All while maintaining the same Foolish philosophy and approach to investing that you've come to know and trust.

We'll even take care of all of the trades involved, including the buying, selling, and rebalancing — not to mention all of the tedious hours... heck, perhaps even *weeks* of thought that go into each of those vital portfolio decisions.

So whether those extra hours and days are spent hanging out with your close friends and family... whether they free you up to jet to new and exotic locations around the globe... or whether they simply allow you to do what you most love *more often*... just know that Motley Fool Wealth Management will be here to ease your portfolio burden.

My team and I are so proud of what we've created here in Fool Wealth. We'd be delighted for you to be a part of it, and I hope to hear from you soon!



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Your 6 Sources of Retirement Income... and How to Fully Exploit Them Starting *Today*

BY ROBERT BROKAMP, CFP®

"Will I have enough to retire?"

If you're like most people (but smarter and better-looking, of course), you've asked yourself that question at one point or another. By way of an answer, you've probably conjured an approximate value of your investment and banking accounts.

That makes sense, because how much you save and how you invest that savings not only play significant roles in financial security, but they also seem to be among the few things you actually control. So many other variables — such as Social Security, interest rates, and inflation — are determined by forces and politicians beyond your control and bribery (at least until you become a lobbyist and create a special interest group called Concerned Citizens for the Freedom and Prosperity of My Own Dang Retirement).

However, the good news is that you're much more than your portfolio.

You have other resources at your disposal that you can use to fortify your financial fortress, even though you may not immediately think of them when you contemplate your "personal balance sheet."

With a little planning (and help from your Foolish friends), you can marshal all your resources and design the retirement you want.

There's nothing magic about it, as long as you have the answers to the following questions:

- How much income will I need each year?
- Where will the income come from?
- How big must my portfolio be to generate that income?
- How will that income be protected from the ravages of inflation?
- How can I protect my spouse's retirement if I pass away before she/he does?
- How can I combine all this into a number-crunching contraption that will analyze my situation?

Wait, stop running for the door! We promise it's not as overwhelming as it sounds. With just a bit of grease on your elbows and this report in your hand, you'll:

1. Know your major sources of retirement income.

2. Learn how much retirement will cost and start charting your retirement road map.

3. See where you stand now, estimate where your current course will lead you, and calculate how much you need to save to meet your retirement goals.

Ready to declare your financial independence? Let's get started.

HOW ARE YOU GOING TO PAY FOR IT?

Retirement isn't cheap. Let's say you want to retire in 20 years and you expect your savings to provide you annually with $75,000 in today's dollars (i.e., dollars not adjusted for inflation). How much money must you have socked away by the time you bid adieu to the boss, the watercooler, and the naps in the supply closet?

About $2.7 million.

OK, that probably seems pretty high at first blush. Fortunately, your nest egg probably won't be your only source of retirement nourishment. When all is said and done, there are actually **six sources of retirement income**, as well as **three things you have to know about each one**:

- What will they be worth?
- Will they keep pace with inflation?
- Will they pass to a survivor when you die — especially to someone such as a spouse who will rely on these sources of income after you pass away?

The following table summarizes the must-knows about each income source:

Source of income	What will it be worth?	Will it keep pace with inflation?	Will it pass to a survivor?
Social Security	Depends on your work history (and your spouse's, if you're married) and any future changes made by Congress	Will likely keep pace with inflation	May be payable to children and surviving spouse if the deceased was primary breadwinner
Employer-provided pensions	Depends on the benefit formula, your work history, and the plan's ability to pay	Generally, government pensions do but private pensions don't	Unless you specifically decline the option, it will provide a continuing lifetime benefit to surviving spouse
Personal investments (taxable accounts, 401(k)/403(b)/457 plans, IRAs, etc.)	Depends on how assets are invested	Depends on how assets are invested	Will always pass to heirs at your death
Annuities	Depends on the type of annuity (income, fixed, or variable)	Depends on the type, but usually not	Depends on the type
Other assets (gifts, inheritances, collectibles, homes, real estate, etc.)	Depends on the value of the assets, and in the case of inheritances and gifts, the generosity of others	Might keep pace with inflation	Will always pass to heirs at your death
Your "human capital" (i.e., your ability to grow your paycheck while working and earn a paycheck in retirement)	Depends on your compensation and whether you plan to work in retirement	Depends on wages and raises	Not unless you can find a way to work from the grave

SOCIAL SECURITY

You may not believe that Social Security will be there when you become eligible to collect it. We can't promise it will, but remember that Social Security is a "pay as you go" program; most of the Social Security taxes paid by today's workers go straight to the benefit checks for today's retirees. To put it bluntly, so long as some Americans are working in the future, there will likely be Social Security checks.

However, we also recognize that the system will almost assuredly give future recipients less than it promises today. According to the last analysis by the Social Security Administration, by 2033 payroll taxes will be able to cover just 76% of benefits. That doesn't sound too heartening, but it also doesn't sound like the program will be penniless. If you're in your 50s, you'll likely get your projected benefits, though there may be other adjustments (such as higher payroll taxes or a reduced cost-of-living adjustment). For Americans in their 40s and younger, the prudent assumption is that you should expect just 50%-70% of your projected benefits. Obviously, the younger you are, the less you should expect.

Another important factor is the age at which you begin receiving retirement benefits. You can begin as early as age 62 or delay to age 70. And the longer you delay, the bigger the benefit.

To put some numbers to these assertions, here are the annual benefits a hypothetical American could earn at different ages, based on figures from the Social Security Administration website:

Age	Annual benefit	Percentage increase over previous year
62	$18,000	N/A
63	$19,285	7.1%
64	$20,571	6.7%
65	$22,285	8.3%
66	$24,000	7.7%
67	$25,714	7.1%
68	$27,771	8.0%
69	$29,828	7.4%
70	$31,885	6.9%

You're looking at anywhere from a 6.7% to 8.3% guaranteed annual return, which is pretty hard to come by these days. Note that this doesn't mean you can't actually retire before age 66 or 68 or whenever; it just means you don't apply for Social Security benefits before then, and live off other assets.

EMPLOYER-PROVIDED MOOLA

Employer-provided pensions, otherwise known as defined-benefit plans, are rapidly becoming an endangered species as employers switch to defined-contribution plans (e.g., 401(k) or 403(b) plans) or hybrid vehicles like cash-balance plans. By eliminating the traditional pension plan, the employer shifts all investment risk to the employee and avoids having to guarantee an income at the employee's retirement.

Still, approximately 10% of workers in the private sector are covered by a defined-benefit plan, as are the majority of government employees. It can be a sweet deal; retirees receive checks in the mail for the rest of their lives, and those checks are immune from the ups and downs of the stock and bond markets. Some studies have found that the more a retiree's income is in the form of regular, reliable payments from sources such as Social Security, pensions, and annuities, the more likely that person is to rate retirement as "very satisfying." Unsurprisingly, predictability and peace of mind have their benefits.

When **You** Should Apply for Social Security

Most Americans claim their benefits at age 62 or just a few years later. That's not always a mistake. If they have done a good job of analyzing their situation — or a skilled financial planner did it for them — they may have rightly determined that delaying doesn't make sense in their situation.

Here are some factors to consider as you ponder what's right for *you*.

Will you live longer than average? About one of every four people age 65 today will live past age 90. One in 10 will live past age 95. So if your relatives tend to live longer-than-average lives, add longevity to your equation. When delaying benefits, the break-even point (the point when you receive more from Social Security than if you had taken it earlier) usually ranges from age 78 to 82. It's no coincidence the average life expectancies for men and women in the U.S. are about 76 and 81, respectively.

Will you continue working? You can receive Social Security while still earning a paycheck, but doing so before your "full retirement age" (66 to 67, depending on your year of birth) could reduce your monthly benefit, depending on how much you're earning. On the other hand, if you continue to work while receiving benefits, and that income is among your top 35 earning years (which is what Social Security is based on), you'll increase your benefit.

Do you really need the money? If you're ill, have a shortened life expectancy, or face limited resources, it may be necessary to take Social Security early. Here's one quick rule of thumb: If you expect to live to at least 80 and can use other resources until age 70, delaying could be best for you. If one or both of these circumstances are not the case for you, it might make more sense to take your benefits earlier.

Do you have a spouse or dependents? The age at which you apply for benefits locks you into a benefit base for the rest of your life. Your benefit base might affect your spouse's benefit, both when you're alive and if you die first. The benefit base can also determine payments to other family members. Thus, it is crucial for married folks to coordinate their benefits — and what will remain for a spouse when one passes away — when deciding to apply for Social Security. There are many strategies for maximizing the marital money received from Uncle Sam.

Unfortunately, defined-benefit plans don't provide the peace of mind they once did. Like Social Security, many pensions are underfunded. In some cases, the gaps will need to be filled by tax increases and/or benefit cuts. Pensions offered by companies are backed by the quasi-governmental Pension Benefit Guaranty Corporation — which itself is underfunded. This brings us to an important difference between Social Security and pensions: Almost everyone gets Social Security, but most people don't get pensions. So there's a greater chance of taxpayer revolt if taxes for the masses go up to cover benefits for the few.

Figure out your employer pension income

If you'll receive a pension from your current or a past employer, contact the human resources department of the company offering the plan to get an estimate of your benefit, as well as the funding status of the plan. You can also get the funding status of a private or union plan — and whether it's on the "critical" or "endangered" list — from the Department of Labor's Employee Benefits Security Administration.

PERSONAL INVESTMENTS

A significant percentage of your retirement income will be provided by your investment portfolio. We're talking about money that you're putting away exclusively for retirement — money that you're not planning to touch for several years, perhaps even decades. This excludes such things as your monthly spending money, the money you've put aside to buy that new car, and your children's college funds.

You have many options when it comes to retirement accounts. It can be overwhelming trying to decide which is best. To help you out, we've pulled out the most important types and developed a general pecking order of where you should deposit your savings:

1) Employer plan with a match

If your employer matches your contributions to the company's defined contribution plan — e.g., 401(k) or 403(b) — this should be the first place to devote every dollar necessary to take full advantage of this benefit. Why? You're staring at free money, and you shouldn't just stare at free money — you should take it.

2) Roth IRA

Once you've taken full advantage of the employer match, it's worth considering diverting additional savings to an IRA, even if you haven't maxed out your 401(k), 403(b), or whatever your work plan is. The truth is, many employer plans aren't so hot — often offering mediocre and limited investment options. You'll have more choices and flexibility with an IRA.

Why are we specifically recommending a Roth IRA? Because if you have a plan at work and in 2019 have an adjusted gross income above $64,000 (filing as a single taxpayer) or $103,000 (filing as married), the amount of your tax deduction for contributions to a Traditional IRA begins to decline, disappearing completely at gross incomes of $74,000 and $123,000, respectively. (For 2020 contributions, each of those figures increased by $1,000.) If you're not going to get a deduction for contributing to a Traditional IRA, choose the Roth.

Here are some other benefits of the Roth IRA (which we should mention don't apply to a Roth employer account):

No mandatory distributions: With employer-sponsored plans and Traditional IRAs, you must begin withdrawing funds by April of the year following the year in which you reach age 70½, even if you don't need the money. Not so with a Roth IRA. If you don't need the money, it can keep growing on its merry, tax-free way.

Tax and penalty-free withdrawals of contributions: If you take money out of your retirement accounts before you're 59½, you may pay taxes and a 10% penalty. However, you can always withdraw the contributions to your Roth IRA (not the growth) tax- and penalty-free. Of course, you should leave it alone if possible, but this provides flexibility if you need the money before age 59½.

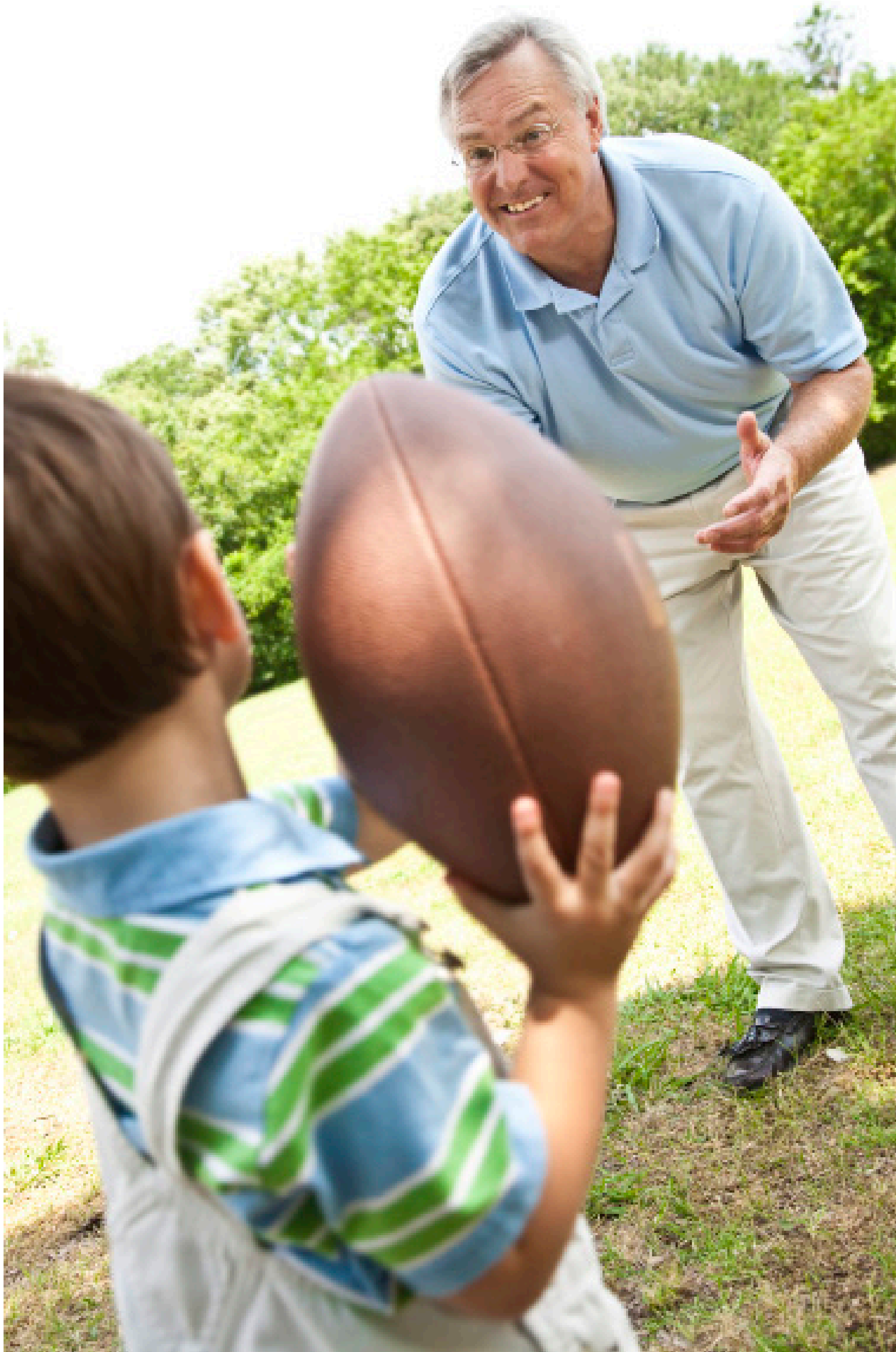
Tax diversification: Most workers have the majority of their assets in traditional accounts. By building up some Roth assets, they can mitigate the risk of higher tax rates in the future, as well as manage their tax bills by strategically taking money from one type of account or another.

Alas, Roth IRAs have their own income restrictions. The amount you can contribute in 2019 begins to decline at an adjusted gross income of $122,000 if you're single and $193,000 if you're married, declining to zero at $137,000 and $203,000, respectively. For 2020 contributions, phaseout ranges are $124,000 to $139,000 for single taxpayers and $196,000 to $206,000 for those married and filing jointly.

Regardless of the type of IRA you choose, the contribution limit for 2019 and 2020 is $6,000 ($7,000 for workers 50 and older). That "worker" part is important, because you must have earned income to contribute to an IRA. One exception: the nonworking spouse of someone who works.

3) Traditional IRA

If your income level is too high for you to contribute to a Roth IRA, consider an IRA of the traditional variety. Even if you can't deduct the contribution, the investments still grow tax-deferred. Plus, IRAs offer some protection from creditors and lawsuits. The contribution limits are the same as for the Roth, and those limits apply to total annual IRA contributions; in other words, you can't contribute $6,000 to a Roth and



$6,000 to a Traditional IRA.

4) Taxable investments

After you've maxed out the tax-advantaged vehicles at your disposal, put your savings into taxable accounts. Choose investments and strategies that are lighter on the tax bill, such as low-turnover mutual funds, as well as stocks that don't pay dividends and that you'll hold for many years (you won't pay taxes until you sell, and then only at long-term capital gains rates).

5) Annuities

For most people, annuities are a last-resort investment because they are too expensive, offer mediocre insurance coverage, restrict the owner's investment choices, and lack liquidity. That said, many people own them, and the right types of annuities can be appropriate for a portion of your savings. Not coincidentally, the next source of retirement income we're going to discuss is...

ANNUITIES

These insurance products are much maligned in the financial media and by many advisors, mostly for valid reasons. However, that didn't stop the industry from selling a whopping $234 billion worth of their products in 2018. You can understand annuities' appeal when you hear that they provide one or more of the following benefits:

- Guaranteed income for life
- A guaranteed rate of return
- Tax-deferred investment growth
- A guaranteed death benefit for heirs
- Potential bankruptcy and creditor protection

But no benefits are free, and unfortunately the pros of annuities are usually overwhelmed by the cons, such as:

1. Annuities are complicated and confusing.

Annuities vary from company to company and even client to client, and terminology is not standardized across the industry.

2. Brokers and agents are incentivized to push annuities.

Annuities often pay high up-front commissions and/or trailing commissions to brokers who encourage them to their clients.

3. High costs

The average variable annuity has an annual expense of 2.5%, which includes the cost of basic (and mostly useless) insurance and investments.

That figure does **<u>NOT</u>** include the costs of common optional riders that are often selling points.

4. Potentially higher taxes, penalties, and other costs

Contributions to an annuity are *not* tax-deductible (unless held in a traditional retirement account), and withdrawals may be taxed as ordinary income (rather than as long-term capital gains) and penalized if the investor is not 59½. Also, some annuities assess "surrender" charges on withdrawals made within a certain number of years.

Again, some types of annuities might be appropriate in some situations. But few financial products deserve a disclaimer more than annuities, so do plenty of learning and discerning before you buy.

OTHER ASSETS

We all have a lot of stuff. In fact, that's why we have a house, according to the late, great comedian George Carlin, who said, "A house is just a pile of stuff with a cover on it… nothing more than a place to keep your stuff while you go out and get more stuff."

For some, a house is not enough. According to the Self-Storage Association, 10.9 million American households were renting a self-storage unit as of 2013. The percentage of households renting a unit has increased 50% since 1995.

Your stuff could be worth a lot of money. As a quick rule of thumb, consider that homeowners insurance policies generally value a home's contents as 50% to 75% of the replacement value of the house.

I'm sure you appreciate a lot of your stuff. You might even need it. But chances are you have a lot you either don't need or that could be replaced with a less-expensive option. It starts with your stuff-container: your house. Once the kids are gone, you might find yourself with rooms and space to spare. Downsizing is a powerful way to both lower expenses and receive a large chunk of money (assuming you have some left over after purchasing your new pad). Also, after age 62, you can get what's known as a reverse mortgage, which you can take as a lump sum or lifelong stream of payments that you don't have to pay back until you move or pass away. While we recommend that you get a reverse mortgage only if absolutely necessary, it can be a reassuring safety net.

Finally, this income category includes things like gifts and inheritances. However, we recommend that you be conservative in your estimates of how much you will receive from such sources. Gifts may not materialize, and estates can be significantly diminished in the wake of terminal illnesses, remarriages, taxes, and posthumous surprises (just ask the East Coast family of TV journalist Charles Kuralt, who found out after he died that he had a hitherto-unknown second family in Montana).

YOUR HUMAN CAPITAL

When it comes to retirement planning, most of us think about our financial assets — stocks, bonds, real estate, etc. But just looking at how much you have in the bank or at the brokerage ignores another very important asset: the one in the mirror.

In academic circles, this is known as "human capital" — how much your paycheck, benefits, and skills add to the family balance sheet. There are three ways this asset (you!) can pay off:

1. You earn a reliable and growing paycheck.

There's more to life than a higher tax bracket. But strategically managing and enhancing your career are among the least-appreciated aspects of financial planning. The more you earn, the more you can save. Also, higher compensation can result in larger Social Security and pension benefits.

2. You earn money in retirement.

Some folks have had enough of the corporate grind — after all, isn't that what retirement's all about? But others don't want to quit work completely; they just want to scale back by working part time, or move on to a lower-paying career. For still others, working part time means they can retire part time sooner than if they wait to be able to retire completely. Whatever your situation, that paycheck should be a part of your retirement readiness calculation. Just make sure you have a reasonable estimate of what you can earn in the future, and adjust for any benefits you'll lose by shifting from full time to part time.

3. You save money by becoming a do-it-yourselfer.

Are you spending a lot of money on something you could learn to do yourself? You don't have to become the next Dr. Evan Kane, who removed his own appendix. We're talking about skills that range from home repair to cooking to even financial planning. Bonus: Besides the obvious monetary benefits, studies show that lifelong learners are less likely to suffer cognitive decline.

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PUTTING IT ALL TOGETHER

I want to thank you for taking a look at this report.

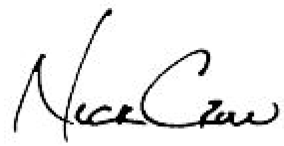
Motley Fool Wealth Management is something different; and exciting. And if you ask me, it's what the financial industry should have looked like all along.

Founding this wealth management firm has fulfilled a lifelong dream for me (and this is after the Army let me jump out of planes for a few years!).

I'm convinced Motley Fool Wealth Management can help you realize your lifelong financial dreams. Our highly unique services make investing simpler and easier than ever before. Imagine building your long-term wealth... without lifting a finger... without the anxiety and hassle of going it alone!

Motley Fool Wealth Management's dedicated team of portfolio managers (all of whom came up the investing ranks of The Motley Fool, before moving over to its sister company, Motley Fool Wealth Management) will manage your portfolio for you, including the buying, selling, and rebalancing.

If you're ready to save yourself the time, hassle, and stress of managing your portfolio... and you'd like our dedicated team of portfolio managers to do the heavy lifting for you, discover what we can do for you today!



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