

Generating and Protecting Your Income in Retirement

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Throughout your adult life, you've worked hard and saved diligently for your retirement. Now that you're enjoying this exciting stage of your life, it's time to turn your attention to making sure your savings can help support the lifestyle you've imagined for the years ahead. Here are some tips to keep in mind regarding how to generate and protect your income during retirement.

Transitioning Accumulated Savings to Retirement Income

It's important to understand the difference between income paid from funds outside your savings and income derived from investments or withdrawals from your accounts. On one hand, income paid from funds outside your savings comes from sources such as Social Security (paid by the federal government), a pension (through a former employer), an annuity (from an insurance company), etc.

On the other hand, withdrawals are simply spending money you have in your own savings, investment, or retirement accounts. Many individuals tend to refer to these withdrawals as "income" to support their retirement. However, taking money from your own accounts means that the funds withdrawn could run out someday, leaving your accounts empty and unable to support your lifestyle.

Generating Income: Set Up a 'Paycheck' Using Your Retirement Savings

To provide a steady flow of income and avoid running out of money in retirement, here are a few ways you can transition your accumulated savings to maintain the lifestyle you desire.

Savings/Money Markets: One traditional way to get income from your savings is to make deposits into savings or money market accounts. These accounts protect your savings from market losses while paying a nominal level of interest. However, yields on these accounts are currently minimal and will likely stay at historical lows (i.e. zero) for years to come.

CDs: A bank CD (certificate of deposit) is another traditional way to protect your savings while earning some interest. Longer-term CDs may even pay interest to you on a semi-annual or monthly basis. You can buy CDs for a very short period of time or up to many years. Keep in mind CDs require you to give up your ability to withdraw the funds until the CD matures—otherwise, you'll pay a large penalty. Similar to money markets, rates on CDs also have dropped recently.

Bonds: A slightly more complicated way to create retirement income is to invest in bonds. Bonds are issued by the federal and lower levels of government, as well as corporations, as a means for you to essentially lend them money. You invest in a bond at \$1,000 increments and, in return, the issuer promises to pay you a specified amount of interest for a set period of time. Typically, interest is paid back to you every six months. You get your \$1,000 back when the bond matures at the end of its term.

Dividends: Many investors are attracted to stock dividends to provide income from investments. When you



invest in a dividend-paying company you benefit from any appreciation in the stock price and get distributions in the form of dividends (a share of the company's revenue). However, unlike interest from bonds, dividends are not guaranteed and can be reduced or even eliminated completely. Also, you could experience losses on the principal of your investment if the price of your stock drops.

Income Annuities: Fixed-income annuities are another popular way to provide income in retirement. Think of an income annuity as a self-funded pension. You invest a lump-sum into an annuity contract and in return an insurance company agrees to pay you a stream of specified monthly income for life or a specified amount of time. Unlike other methods of investment income, a lifetime annuity will keep paying income to you after you have gotten back all your initial investment.

Alternative Investments: Non-traditional investments such as Real Estate Investment Trusts (REITs), Master Limited Partnerships, and Unit-Investment Trusts generally provide a relatively high level of income for your investment. However, these investments typically are complex and illiquid—be sure to get all information available from your advisor before using your savings for this kind of investment.

Protecting Income: Your Retirement May Last Awhile

Plan for Health Care Costs: One way a retirement lifestyle can be put in jeopardy quickly is if you experience escalating costs associated with your health. Planning for these costs can make a big difference in mitigating the expected and unexpected costs of maintaining your health. Retirees under age 65 should explore the best options for paying for a health plan that fits into their budget before Medicare eligibility. Retirees can also investigate long-term care (LTC) insurance or other options to provide for their own care later in life.

Invest for Growth: Consider your retirement is the beginning of your next phase in life that could last another 30 years or more. As such, you want to make sure your investments are structured to ensure a proper growth level throughout all those years. Resist the urge to reduce your investment risk too low. Instead, work with a qualified portfolio manager to determine the best investment growth level for your investments. In the end, a diversified growth component of your accounts will provide the best vehicle to help you keep up with inflation and provide the assets you need throughout your retirement.

Make Systematic Withdrawals: Set a specific withdrawal amount from your savings and investment accounts each month to spend. Typically, this amount can be transferred directly to your bank and act as a self-funded 'paycheck' for you to live on. Also, taxes can be withheld when taking these withdrawals from retirement accounts. Keep withdrawals at a sustainable level determined by you and your advisor to make sure your accounts don't drain too quickly.

Plan Your Social Security Income (SSI) Strategy: Social Security can be tricky—you can start taking your benefit as early as age 62 and as late as age 70. However, the earlier you take your benefit, the less monthly income you receive. For each year you wait to begin taking your Social Security income, you'll get an 8% increase in the monthly amount you're paid. Once you start your income benefit, you're subject to annual raises determined by the government. (There's been a yearly increase of about 2% over the past 10 years.) The longer you wait to take SSI the better—that way, this part of your retirement income can help support your lifestyle long-term. Again, work with your advisor to determine the best SSI timing for you and your retirement plan.



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Consider Other Ways to Make Your Money Last Longer

Don't rule out other ways to make your money last longer in retirement. You might want to consider:

- **Working in retirement:** Finding an enjoyable job with flexible hours is a great way to share your skills and passions, interact with other people, and generate a little bit of income to take the pressure off your own savings.
- **Volunteering:** While volunteering doesn't pay income, it does keep you busy. Helping out at a favorite local charity with a worthy cause could keep you from finding new ways to spend more money than you had planned.
- **Decreasing your spending:** You may be able to reduce your spending once you're retired. Take a look at your monthly expenses and decide where you can make some changes in your spending habits. Reducing personal spending is like giving yourself a tax-free raise.

Carefully Consider These—and All—Your Retirement Income Options

Bottom line, everyone's retirement is different. That's why it's important to work with your advisor to determine the income options best suited for your unique financial situation.

Contact us today—we will listen to your concerns and offer tailored solutions to help you structure your assets to create a steady income stream in retirement.

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John is a financial planner for Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, John develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax and investment strategies along the way. John has nearly 25 years in the financial planning industry, working with both individual and institutional clients. John received both his bachelor of science in business management and master of business administration degrees from Brigham Young University. He has also earned his CERTIFIED FINANCIAL PLANNER™ designation.



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