

## PLANNING FOR A 'RETIREMENT PAYCHECK'

While most workers live on their paychecks during their working years, few plan for a “paycheck” that will provide a dependable stream of monthly income during their retirement. They’ve not answered such questions as how much can they safely withdraw each year, what’s the right asset allocation, or do they draw from taxable or nontaxable sources first.

Yet such planning is as critical as accumulating the nest egg – especially considering how quickly a bear market can decimate years of hard-earned savings. Here are several key issues soon-to-retire workers need to think about so they can make the most of their nest egg, say CERTIFIED FINANCIAL PLANNER™ professionals.

**What “paycheck” income sources do you have?** Your retirement paycheck will likely be funded from multiple sources: Social Security, perhaps a pension, tax-favored retirement accounts, individual retirement accounts (IRAs), taxable investments and annuities are among the most common. Part-time work also may figure into the mix.

**How large a paycheck will you need?** You’ll need to match the size of your paycheck with your retirement expenses, so you’ll have to do some cash-flow projections and budgeting.

**What asset allocation should you maintain in retirement?** The answer depends on several factors, the first of which is what income sources you have listed above. Let’s say you have a private or public pension. Many planners would treat this and Social Security benefits as equivalent to bonds in a portfolio. Thus, assuming you are comfortable with taking some risk, the investable portfolio might be more heavily weighted toward stocks in order to provide assets that have a good chance of keeping ahead of inflation over time (most private pensions are not indexed for inflation).

What if you don’t have a pension and must rely more heavily on your 401(k), IRAs or other retirement accounts to fund retirement? Some planners recommend keeping three to four years’ worth of investments in cash and cash equivalents such as short-term bonds and certificates of deposit, while the rest of the portfolio might be in stocks. If the stock portion of your portfolio is growing, you can tap some of that growth to help pay for retirement. When the market is down, as in the last three years, leave the stock portion alone and draw on the cash equivalents, and then rebuild them when the market recovers.

Other planners prefer the idea of converting a portion of that portfolio – say 25 to 50 percent – into an annuity that pays out fixed monthly benefits. In short, you’re creating your own pension plan that will pay you for life, though again one that does not keep up with inflation.

Other factors in determining asset allocation include your tolerance for investment risk and your age (the younger you retire, probably the more aggressive your account will need to be).

**How much can you afford to withdraw from your nest egg?** Put another way, how big a paycheck can you write yourself each month without the risk of running out of money during retirement? Again, that will depend in part on what income streams make up your retirement paycheck and how your assets are allocated. If your retirement accounts, IRAs and taxable investments make up the bulk of your paycheck, retirement experts lean toward a conservative withdrawal rate. They don’t agree on what withdrawal rate is “safe” – four percent is a common conservative recommendation, but some are comfortable with slightly higher withdrawal rates of around five or six percent. Retirees who intend to take out more than four percent, however, should be prepared to cut back if a bear market hits their portfolio.

Retirement experts do concur that you shouldn’t annually withdraw the amount you expect your portfolio to earn on average – say eight or ten percent – in the coming years. Do that, and the wrong sequence of market declines could deplete your nest egg before your retirement years end.

**Should you withdraw taxable or tax-deferred assets?** Standard advice is to withdraw from taxable accounts first in order to let the retirement accounts continue to grow tax-deferred or even tax free (as with a Roth IRA). But financial planners caution not to let this strategy unbalance your asset allocation. If your taxable assets are mostly bonds and cash equivalents, for example, you could end up leaving your portfolio overloaded with stock. Estate planning goals also need to be taken into account.