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FINANCIALJOURNEYS

FINANCIAL & RETIREMENT PLANNING FOR LIFE

Flipping the switch

Help your money last with these 7 tips to generate a retirement paycheck

With retirement within sight, now's the time to figure out how to turn your savings and investments into a paycheck – so you can live comfortably and still achieve your goals. For many, the challenge is easier said than done, and comes alongside fears of spending too much now and not having enough later or the worry of denying yourself if you don't spend enough. Here are seven ways to help you get and stay on the right track.

NO. 1 START AT THE SOURCES

Start with streams of consistent and reliable retirement income that will serve as your main source of cash flow. The key is identifying which one, or combination of sources, such as Social Security, pension payments, employment income or annuity payouts, you can use to cover your necessary expenses.

Decide what your retirement needs truly are, things like mortgage payments, groceries, utilities, insurance, transportation and healthcare, and ensure you have a variety of stable income sources to meet those needs. Your advisor can help you analyze each one and run hypotheticals to help you gain confidence in their ability to withstand changing market conditions.

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Keiron Partners

720 Rugby Street, Suite 200
Orlando, FL 32804
407.648.1881 // TF 855.648.1881
KeironPartners.com

Michael Clark, CFP®
CERTIFIED FINANCIAL PLANNER
Retirement Plan Advisor

RAYMOND JAMES®

Flipping the switch: 7 ways to generate a retirement paycheck (cont.)

NO. 2 FLOW IN THE RESERVES

If your needs aren't quite covered by your main sources, you may have to turn to other income streams to fill the gaps. These are the assets you specifically set aside to fund your retirement and supplement your reliable income – think 401(k), IRAs, checking and savings accounts and CDs. If those needs are already covered, you can use overflow to pay for the wants (such as vacations and hobbies) and wishes (such as charitable giving and your legacy) that reflect your ideal retirement.

NO. 3 PACE YOURSELF

Although you can't guess just how long you'll live, you can account for longevity risk by spending wisely for a greater chance of your money lasting as long as you need it to. No need to go to extremes, but avoid unsustainable spending patterns, even if the markets and your portfolio are doing well.

NO. 4 DIVERSIFY AND CONSOLIDATE

You likely already understand the potential benefits of asset allocation – diversifying your wealth across multiple assets to temper risk. But maintaining multiple types of accounts across various firms may get confusing, particularly when it comes to managing money from several sources. It may be more helpful to consolidate all your cash into a single account with reporting tools, where you and your advisor can keep track of and analyze your inflows and outflows as often as you need to.

NO. 5 THINK LONG AND SHORT TERM

Since retirement may last two to three decades, you'll need access to immediate liquidity, capital preservation to meet today's needs and growth potential to attempt to keep pace with future expenses, which are likely to be higher.

A bucketing strategy can help earmark a certain portion of your portfolio in relatively safe and liquid investments (think cash and cash alternatives) so that you feel confident that your needs will be met over the short term. The rest of your portfolio would be dedicated to growth investments that may help give you a better chance of funding long-term goals.

Also, have an emergency fund or ready liquidity available to pay for the unexpected. This gives you access to funds in times of market volatility or other unforeseen circumstances to avoid selling longer-term investments at an inopportune time.

NO. 6 DON'T SWING FOR THE FENCES

It may sound good in theory to save your principal and live off the interest. But interest rates are still relatively low, so it may be a bit more difficult to generate enough interest to create meaningful cash flow, especially over the long term. Inflation happens to be low now, too, but over time it could erode the buying power of your cash.

That reality doesn't mean you should ignore your tolerance for risk and invest outside your comfort zone in an attempt to reach for incremental yield or income. Even in retirement, it is important to know what you own and why you own it to avoid jeopardizing your entire portfolio. Instead, take a total return approach that relies on diversification, including income from bonds and capital appreciation potential.

NO. 7 GET TAX SAVVY

Pay attention to how taxes could affect your actual take-home "pay" and work with a tax professional to help generate the most after-tax cash flow in retirement. Look at asset location, which divvies investments up among various types of accounts for tax-efficiency: Taxable, tax-deferred and tax-free.

The withdrawal order may also affect your tax obligation. Your advisor can provide guidelines for withdrawing your retirement income to ensure tax-favored assets enjoy that status for as long as possible. ■

NEXT STEPS

- Consider how these suggestions can work with your other streams of income, such as Social Security, annuities, income-producing investments, pensions and distributions.
- Your advisor can help you create an income plan to better protect you against outliving your assets.
- Collaborate with your financial advisor in the months leading up to retirement to develop your withdrawal strategy.

Sources: Janus Henderson Investors; Fidelity; Raymond James research

Where Medicare falls short

Medicare provides a lot of coverage, but it doesn't cover everything

It's never too early to start thinking and planning for retirement, especially when it comes to the top three expenses: housing, transportation and healthcare. Even with Medicare, quality healthcare can come with a hefty price tag with premiums, copayments, deductibles and other out-of-pocket expenses to account for.

FINDING THE GAPS

Estimating your future medical costs and planning for them will require becoming familiar with what Medicare will and won't cover, and the various costs involved. So what can you expect to pay out of pocket should you need one or more of these common services? Take a look.

HEARING AND VISION CARE

$900 – $6,000+
Cost each for hearing aids, batteries and maintenance

UP TO $250
Cost of hearing exams and fitting consultations without insurance

LONG-TERM CARE

$87,600
Average annual cost of nursing home care in 2016

70%
of Americans over 65 will need some type of long-term care

DENTAL CARE

$351
Average amount Americans spent per capita on dental care in 2014

$18,590
Amount the average retired couple will spend out of pocket for dental services

COVERING YOUR BASES

Budgeting becomes crucial to laying the groundwork to pay for those necessary expenses. The good news is there are several approaches to consider.

Allocate a lump sum of money to cover the average lifetime healthcare costs.

Estimate your and your spouse's projected health needs based on your family history and state of health.

Take a hybrid approach by estimating your costs, buying enough insurance to cover most of your anticipated needs and setting aside a smaller cash reserve for the unexpected.

Look into HSAs since the money saved within them can be used for many of the costs outlined above as well as other qualifying health expenses.

Review the role of life insurance as most permanent life insurance policies allow partial withdrawals or loans for healthcare expenses.

See if you're covered by an employer-sponsored plan. If you're still working, you may be covered and some previous employers extend insurance benefits to retirees. ■

NEXT STEPS

- It's never too early to start thinking and planning for retirement, especially when it comes to the top three expenses: housing, transportation and healthcare.
- Understand what you can and cannot expect from Medicare, to avoid unexpected medical expenses.
- Your advisor can help add in contingency plans to your retirement income strategy.

Sources: Centers for Medicare & Medicaid Services; medicare.gov; aarp.com; time.com/money; kiplinger.com; "How Much Does Therapy or Counseling Cost?" Depression RSS2, March 29, 2016; costhelper.com

Do risk and retirement mix?

Adding more stocks to your income plan may help offset low interest rates and inflation.

We live in unusual times, with interest rates at historical lows but likely to rise in the not-too-distant future, stocks trading at what some consider elevated levels driven by a years-long bull market, and investors scouring the pronouncements of central banks for clues to what may happen next. However, one thing remains unchanged – those in or near retirement still have to map out a prudent strategy for generating income in the years ahead.

While a traditional approach relying primarily on bonds and other fixed income securities served those who retired during much of the past 30 years fairly well, different times call for different thinking. Some researchers and investment professionals now recommend that retirees maintain a significant allocation to equities throughout retirement, perhaps even increasing that allocation as they age.

THE CASE FOR STOCKING UP ON EQUITIES

The foremost worry of many retirees is that they might outlive their money, so any retirement income plan must squarely address that risk. Holding a higher proportion of equities, which offer the possibility of capital appreciation, may help offset the steady drain on retirement portfolios caused by withdrawals and inflation. In addition, be aware that bonds as a whole may decline in price if interest rates trend upward over the course of a long retirement.

THINK AHEAD ABOUT VOLATILITY

Equities historically have been more volatile than bonds, so if you allocate more of your retirement portfolio to stocks, you have to be prepared to weather periods of volatility. It's critical that you work closely with your advisor to invest in a portfolio that fits your risk tolerance so you are able to stay the course when the inevitable gyrations arrive.

Also, keep in mind that bonds can be volatile too, especially when interest rates rise. For balance, consider maintaining a cash reserve equal to several years' worth of living expenses – you and your advisor can decide how much.

CONSIDER ALL YOUR INCOME SOURCES

Comparing income to your overall expenses will provide you with a framework for determining how your retirement portfolio should be allocated. You and your advisor may be able to estimate how your portfolio will react in certain hypothetical circumstances and make adjustments as needed. ■

NEXT STEPS

- Carefully monitor and manage your portfolio, including the amount you allocate to stocks, bonds and cash.
- Ask your advisor to review your portfolio to help determine if holding a higher proportion of equities may help offset withdrawals and inflation.
- Your advisor can guide you in structuring a prudent investment strategy that can carry you through retirement.

Past performance may not be indicative of future results. Asset allocation does not guarantee a profit nor protect against losses. Investing involves risk, including the possible loss of capital. There is no assurance any investment strategy will meet its goals or be profitable. Dividends are not guaranteed and will fluctuate.