Graystone Consulting

Your Financial Future

Tips and insights to help you reach your goals

FALL 2019

Crossing the Finish Line: Turning Retirement Assets into Lifetime Income

We've shown you how to develop a winning retirement planning strategy from the starting line (**Spring 2019** issue), through the halfway point (**Winter 2018** issue), and into the home stretch (**Fall 2018** issue). But reaching the finish line of your working years doesn't mark the end of your retirement journey; in fact, it's only the beginning. When you retire, you'll want to turn your savings into an income stream to cover life's expenses, which could be greater than you realize. The good news is you're preparing—and you have options!

The challenges ahead

Americans are living longer in retirement than previous generations, which means your assets have to work harder to offset the effects of inflation and other factors. These include healthcare costs, which continue to skyrocket and will likely be your biggest expense during your retirement years. According to the Employee Benefit Research Institute (EBRI), a 65-year-old couple will need $296,000 to have a 90% chance of covering all their health insurance premiums and out-of-pocket costs in retirement.*

Social Security may help offset some of your expenses in retirement, but it was never meant to replace 100% of anyone's income. It's only meant to replace about 40% of the average worker's previous income, rising a bit each year to keep up with inflation. For estimates based on your own earnings history, see the Social Security Administration Retirement Estimator.

Fortunately, there are a number of strategies that can help stretch your assets to cover your needs in retirement.

Know your options

Once you reach your retirement years, there are three main ways to use your nest egg to create income:

1. **Systematic withdrawal strategy**—The most popular strategy uses a total return approach that aims for greater long-term returns. It entails rebalancing your portfolio over time while generating a steady and inflation-adjusted cash flow. Typically, the recommended annual withdrawal rate is 4%, but what's right for you will depend on your risk tolerance, investment returns, and time horizon.

2. **Essential vs. discretionary approach**—This strategy categorizes spending goals into needs and wants. More conservative income sources, such as bonds and certificates of deposit (CDs), are used for essential expenses (needs)—like taxes, housing, food, and healthcare—while higher-risk income sources, such as a mix of bonds and mutual funds or stocks, should be considered for discretionary expenses (wants)—for instance, a second home or travel—when they perform at or above expectations.

3. **The "bucket approach"**—This strategy creates buckets or groups of investments, each with a different time horizon in retirement. For example, one bucket could be for your first five retirement years using lower risk investments, such as cash, bonds, and CDs. A second bucket could provide some growth potential for the next five years using a mix of bonds and mutual funds, while a third bucket designated for your later years (10+) may include stocks for their longer-term earnings potential.

To learn more about how to make the most of your assets in retirement, read Morgan Stanley's Making the Most of Your Retirement Savings or speak with your financial advisor.

*Paul Fronstin and Jack VanDerhei. "Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as $400,000, Up From $370,000 in 2017." EBRI Issue Brief, no. 460 (Employee Benefit Research Institute, October 8, 2018).

Questions to Consider Before Making Open Enrollment Decisions

Here comes open enrollment—the time of year when most employees can enroll in or make changes to the benefits available through their employer. Ask yourself these questions to make the most of your retirement plan during this window of opportunity.

Does my employer offer a match?
Find out whether your company offers a match on your workplace retirement plan contributions. If so, check to see whether you are contributing enough to maximize that match. If at all possible, you should defer enough into your plan to qualify for the full employer matching contribution.

How much would a 1% increase matter today…and tomorrow?

Taking full advantage of your employer's match is a smart move, but it still might not be enough to maintain your lifestyle in retirement. Check the amount you're contributing, and consider whether you should adjust your percentage. For example, some companies automatically enroll employees at a default contribution rate. While it can be a start, contributing on "auto pilot" could make it harder for you to reach your financial goals. If you can contribute more, you should think about doing so because adding as little as 1% more today, could mean a lot more when it's time to retire. To learn more, visit the AARP Retirement Calculator.

What has changed in my life over the past year?

Whether it's tying the knot, having a baby, getting a divorce, or earning more income, a change in your personal or financial situation can affect what's best for your benefits. Recently divorced? You may want to update the beneficiaries on your work-related retirement accounts. Earned a raise? It might be a good idea to increase your retirement account contributions.

Should I rebalance my retirement accounts?

Now may be an opportune time to review your retirement portfolio's investment mix and performance to help you stay on track toward meeting your financial goals. This includes your workplace retirement plan as well as any individual retirement accounts (IRAs) you may have. Are all your savings vehicles working together in an optimal fashion to help you achieve your long-term goals?

Blazing a Trail to an Earlier Retirement

Could you light a fire under your plans for retirement? Many people are trying to do so by slashing spending and ramping up investing in order to accelerate their financial independence, making it possible to retire in their fifties, forties, or even earlier.

The basic premise of this approach sounds simple—spend less than you earn and invest the rest—but it requires a level of discipline and commitment that isn't everyone's cup of latte. Formulas differ, but advocates of this approach generally recommend saving anywhere from 50% to 75% of your income. Such extreme saving is easier to achieve for higher-earning workers, who don't need as much of their income to cover basic expenses. Even for those with higher incomes, forgoing life's little pleasures—like grabbing that latte or other splurges—in order to retire early may not seem worth it. Another factor to consider is what work means to you. Is it just a paycheck or something that brings fulfillment and provides a sense of purpose?

Regardless of whether you want to reduce your time in the workforce, want the flexibility to choose how much and in what ways you want to work as you grow older, or just want to reduce your cost of living, the early retirement philosophy is worth considering. Perhaps the biggest takeaway is to spend consciously, evaluating your short-term expenditures in light of your long-term goals. That's a lesson we can all benefit from.

Some suggestions for reducing expenses include:

- Purchasing used cars instead of new ones
- Reducing housing costs
- Using a less expensive cell phone service
- Scaling back on grocery and restaurant spending
- Replacing cable TV with less expensive options
- Adding passive income streams, such as rental properties and affiliate marketing
- Lowering your tax liability by maxing out your tax-deferred vehicles, such as your employer-sponsored retirement plan

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

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