

Creating your paycheck in retirement

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You've spent years investing so you can retire on your terms, but as retirement nears, the purpose of your portfolio will begin to change. It no longer has to get you to retirement; it has to get you through retirement. And as your regular paychecks stop, you'll need a strategy to help provide for your income needs throughout retirement. We can help.

What you need to know

- As you enter retirement, your portfolio's investments and purpose will change.
- Your paycheck in retirement can come from much more than dividends and interest.
- We recommend having at least a year's worth of income needs in cash on an ongoing basis.
- Taking from different investments based on market and tax considerations may help you rebalance and provide for your income needs over time.

As the role of your portfolio shifts to providing income, we recommend you:

Focus on your allocation: As you shift from saving to spending, we believe a more balanced mix between equities and fixed income is appropriate. Growth still matters, since inflation doesn't retire and there's the risk of outliving your money. However, you'll also need investments designed to help provide for your current income needs and provide more stability. In addition, the types of investments within these areas may change. This shift should begin to occur in the years leading up to retirement.

Focus on the purpose: Different investments serve important roles in providing for your retirement income. Some are designed to provide income now and others provide income later, but they're all important.

Portfolio income in retirement: Not just dividends and interest

You may expect your income from your portfolio to come primarily from your investments' dividends and interest. However, as your portfolio plays a larger role in providing for your income needs in retirement, dividends and interest probably won't be enough.

Cash flow from your portfolio can come from:

- Dividends
- Interest
- Proceeds from selling investments

Your portfolio's return is made up of growth of principal as well as dividends and interest, so your retirement income should include those three components. In fact, our withdrawal rate guidance — approximately 4% of the portfolio for a 65-year-old retiree — assumes that these withdrawals include interest, dividends and some investment sale proceeds.

The purpose of your investments in retirement

Cash and short-term fixed income provide for your near-term income needs and provide some stability, but may earn little, if any, interest. Your cash and short-term income strategy will likely be very different from what it was before retirement, and we highlight how to position it in the "Short-term cash strategy" section on Page 3.

Bonds and other fixed-income investments provide interest that can supplement your near-term income and provide income over the intermediate term. We recommend considering a laddered portfolio of individual bonds or bond mutual funds to round out your fixed-income portfolio.

Stocks and other growth investments are designed to provide growth and rising income potential — to help outpace inflation and provide for your income needs years from now. The equities you own may lean toward larger, higher-quality, dividend-paying companies and those with the potential to increase their dividends over time,* which helps provide rising income. That said, we still recommend investing in small and midsize companies — for diversification purposes and to provide growth potential for your needs down the road.

*Dividends can be increased, decreased or eliminated at any time without notice.



It's important to view your investments based on their purpose in providing your income. This may help you better prepare for the ups and downs of the market and stick with your strategy over time.

Building your short-term cash and fixed-income strategy

To structure the cash and short-term fixed-income portion of your portfolio, we recommend the following:

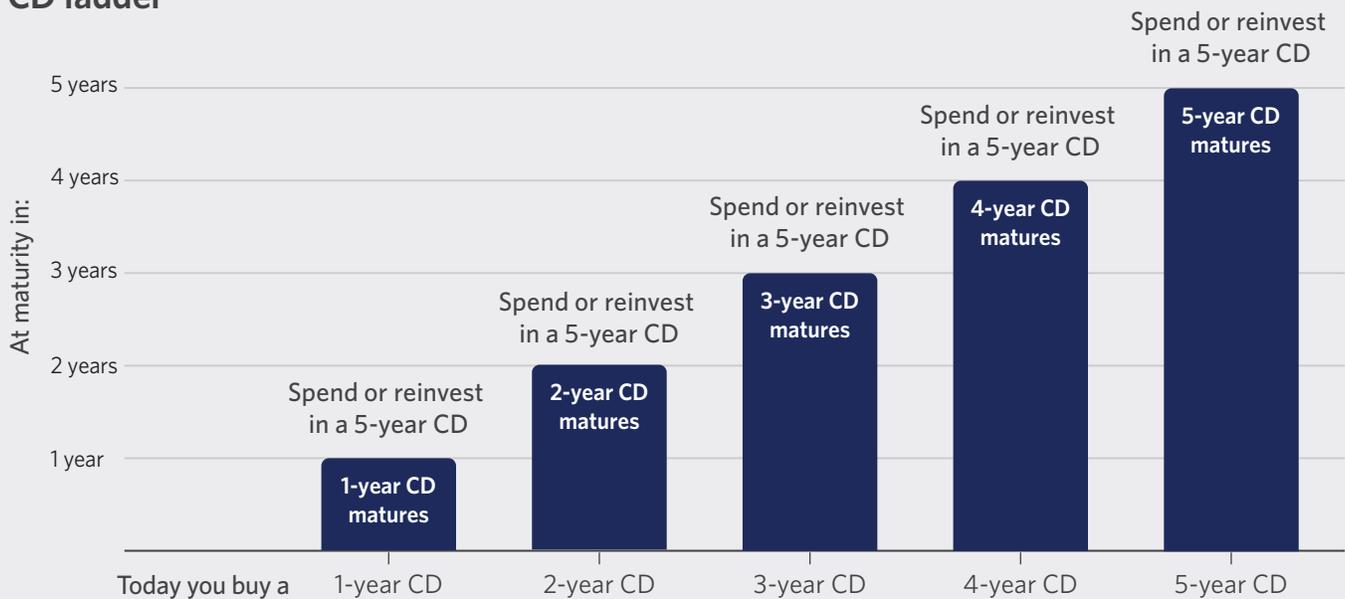
Cash

Calculate how much you need to cover a year's worth of your living expenses after accounting for outside sources of income (such as Social Security or pension income). This is in addition to any cash set aside for emergencies or investment purposes.

Fixed-income ladder

Create a ladder of certificates of deposit (CDs) or other short-term investments that will mature annually over the next three to five years. This can provide the annual income you need your portfolio to generate. This ladder would likely account for the short-term portion (30% - 40%) of your overall fixed-income allocation.

CD ladder



Investors should evaluate whether a CD or bond ladder and the securities held within it are consistent with their investment objectives, risk tolerance and financial circumstances.

Providing your paycheck over time

Your paycheck in retirement can come not only from your portfolio but also from outside sources, such as Social Security or pensions. So, how do you tie all of this together and manage it over time?

It may be helpful to have a separate account you use for retirement spending. This can separate the cash you have for retirement spending from your investments and other money, which may be used for emergencies or future investments.

Current needs: A year's worth of cash

In your retirement spending account, we recommend you have a year's worth of your income needs in cash.

One-year spending account

- Outside sources of income (Social Security, pensions, etc.)
- Payments from annuities (if applicable)
- Proceeds from your portfolio

Refilling your cash account

To fill and refill your cash account, we would start with outside sources and supplement with your investment portfolio, as outlined below:

- 1. Outside income sources** — Start with your Social Security and pensions.
- 2. Guaranteed income** — Factor in withdrawals from annuities with lifetime income (if applicable).
- 3. Required minimum distributions (RMDs)** — Add RMDs from IRAs (if applicable).
- 4. Dividends and interest** — Include dividends and interest from taxable accounts (including municipal bond interest).
- 5. Sales from your investments** — Add proceeds from maturing investments (e.g., CD ladder) and/or investment sales (taking into account the considerations on Page 6). Remain sensitive to rebalancing and taxes, with the withdrawals taken in the following order:
 1. Taxable accounts
 2. Traditional retirement accounts
 3. Roth retirement accounts

This sequence is just a guide. The accounts and investments you use may vary from year to year depending on your investment and tax considerations, as outlined on the last page.

Income from annuities — Spend it first

If you have an immediate annuity or an annuity with lifetime income benefits (commonly referred to as guaranteed lifetime withdrawal benefits, or GLWBs), this is a great place to start before taking income or withdrawals from your investment portfolio. This is particularly true if the annuity no longer provides an annual increase to your income base (referred to as crediting), which is common before you begin taking withdrawals.

With GLWBs, these guaranteed payments will continue from the annuity, even if your account value falls to zero. Since you are paying for this insurance, we recommend you use these guaranteed payments as a primary source of income before taking withdrawals from your other investments. That said, remember that any withdrawal above the guaranteed amount could void the guarantee. Since the initial payments from income annuities often start out higher than what we would recommend withdrawing from your investments, these payments could increase your current income and reduce your reliance on your other investments for income.

Refilling your income bucket — Incorporating market ups and downs

Regardless of market performance, income from your portfolio will start with dividends and interest from taxable accounts and RMDs. This will help restock your cash and supplement your near-term income. But how do you know what to take from next? Viewing your investments based on their role can help.

Cash and short-term fixed-income investments

Near-term income

Intermediate- and longer-term bonds and fixed-income investments

Medium-term income

Stocks and growth investments

Long-term income

During down markets: Your emotions may tell you to make changes and potentially sell stocks, but stocks are there to provide for your long-term income. Your near-term income needs are already addressed by your cash and short-term fixed-income ladder, so you can withdraw from them, allowing your stocks to recover over time.

During up markets: When markets are up, you could cover some of your current expenses through the growth of your portfolio, as you may now be overweight in stocks. You could also use this growth to restock your cash and short-term ladder. Rebuilding your ladder can help you prepare for down years, whenever they may occur.



Other considerations when taking distributions

While the general framework on Page 4 is a good starting point, there are additional considerations that may change which investments or accounts you may use for your income needs.

When considering which investments to sell

- Are there opportunities for tax-loss harvesting?
- Are there investments where you are overweighted and can rebalance?
- If you're taking your RMD and don't need the money, could you consider strategies such as taking the distribution in-kind or making a qualified charitable distribution?
- Do any investments have a higher cost basis relative to current value (potentially providing a lower capital gain or higher capital loss)?

When considering which account to use

- If you have a year with a lot of tax deductions, or you still have room in your current tax bracket, it might make sense to take from your traditional IRA or 401(k) before, or in addition to, your taxable accounts to use this lower tax bracket and potentially reduce your tax burden in the future — particularly if RMDs could push you into a higher bracket later in life.

- It may make sense to take distributions from a Roth IRA or Roth 401(k) in certain years to prevent you from moving into a higher tax bracket.
- If you have several accounts with the same tax treatment (such as multiple traditional IRAs), consider items such as cost differences between accounts, the purpose of the account and rebalancing opportunities.

Additional considerations may be specific to your situation, so we recommend discussing your expected income and withdrawals with your tax professional each year as you make these decisions.

Your retirement income strategy

With the knowledge of your long-term goals, income needs and comfort with risk, your financial advisor can help you position your portfolio to provide the income you need when you need it. This can help you better navigate the changing market environment during retirement and provide you the ongoing paycheck you need to help you live the retirement you deserve.