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Retirement Income: Think Creatively

From intra-family mortgages to nontraditional fixed-income investments, here are a few strategies for generating extra golden-years cash flow

by Marc Hogan

This holiday season's massively hyped Sylvester Stallone movie, *Rocky Balboa*, finds the aging boxer—and the actor who plays him—beefing up their retirement accounts with one last return to the ring (wife Adrian, alas, isn't around to share the popular pugilist's golden years). Right now, many of the 77 million Americans nearing their golden years may be hoping for a similar yuletide miracle.

That's just Hollywood. Still, retirees and soon-to-be retirees may have some retirement options they haven't considered yet. In some cases, the boomers' grown-up kids might be able to lend a hand (see BusinessWeek.com, 10/16/06, "Getting Your Parents' Finances in Order").

"Anything a child can do to help the parent delay taking Social Security benefits can be helpful," says Bob Nusbaum, president of Pittsburgh-based financial-planning firm Middle America Planning. For example, Nusbaum observes, lending a car now and then might help the parents downsize from two cars to one.

Not ready to take up boxing? This week's *Five for the Money* looks at some other less obvious, but savvy, ideas for generating retirement cash flow.

1. Be house-smart

Brent Little, managing partner at Plano (Tex.)-based Odyssey Wealth Management, recalls a client who needed the level of income he might generate from corporate bonds. But instead of turning to the bond market, the client paid off his son's home mortgage and now has his son making mortgage payments to him instead of the bank. This way, the father earns 6%—the interest rate on the son's mortgage—compared with the 4% gain the Lehman Aggregate corporate bond index has posted this year.

Though not for everyone, this approach can be a way for baby boomers to get cash flow while still allowing their children to get the interest deduction for tax purposes. "Usually, we see parents helping children buy a house, but this time around the children can help the parents by giving them stable income in their retirement years while not costing the child anything," Little says.

Be warned: Little's strategy does carry risks, particularly if a child has an unstable employment history. Parents would be placing a large amount of their money in a single, illiquid holding, rather than in a broadly diversified investment portfolio. It's best to consider this option on a case-by-case basis.

2. Check up on insurance policies

Of course, retirees and those nearing retirement can also boost their cash flow by trimming their spending. Eliminating or reducing unneeded life-insurance coverage can cut down on the need for cash today, financial planners suggest. In some cases, baby boomers might even be able to turn the cash value of an unnecessary policy into an annuity.

"Many baby boomers still have whole life or some cash-value life insurance," says John Deyeso, principal of New York-based financial-planning firm Financial Filosophy. "Do they still need the life insurance? If so, do they still need the same level of coverage?" It's important to tailor your coverage to your current needs.

3. Look beyond traditional fixed income

The recent rising interest rate environment has led some investors to seek fixed-income investments other than bonds, which tend to underperform in those circumstances.