The National Underwriter Company
A Unit of Highline Media LLC

home page

online store

career center

meetings & events

industry links

online communities

Search

IP Online
Home
Resources
links
research
message board
Archives
Income Planning
feature articles
News
news articles
legislation
About IP
online community
staff
cd

Advertise Electronically- Explore Opportunities in E-newsletters

m

INCOME PLANNING ONLINE
SMART STRATEGIES FOR RETIREMENT INCOME SPECIALISTS

Advisors Offer Tips On Creating An Income Plan

By Jim Connolly

Spending requires work, or at least careful planning. So say financial planners interviewed by *Income Planning* about how they develop a program of retirement income withdrawals. The work, according to advisors, is reaching the balance needed to provide income without spending too much.

Creating that balance right from the start with a “sustainable” withdrawal rate is important because clients do not react well to a downward adjustment after they have become used to a certain level of income, according to F. John Deyeso, a financial advisor with Financial Filosophy, New York. Consequently, withdrawals must be adjusted for inflation, he says.

To accomplish this goal, he says, the portfolio’s long-term growth rate target must be greater than the withdrawal rate so that inflation or market downturns do not erode principal, he says. The “safe” withdrawal rate factors in the tax treatment of portfolio returns plus the client’s anticipated longevity, Deyeso notes. In good years, the excess return that is not withdrawn proves to be a buffer for the market’s off-years, he adds.

It is important to establish a withdrawal rate and then maintain it, because a client comes to expect a certain income each month, he reiterates. Therefore, have a client define retirement early so that there is not a magical number for retiring—i.e., without reality associated with that number. “It is absolutely step number one. They have to live their retirement, not me. My job is to help them get there,” Deyeso says.

Withdrawals are taken from different assets classes as part of portfolio rebalancing, a process that is done at least quarterly, points out Anthony Benante, an advisor with Baron Financial Group, Fair Lawn, N.J. An asset class should never be drawn down to zero, he explains, because portfolio diversification is important.

Creating income as part of rebalancing makes it possible to adjust portfolios from a position of strength, Benante says.

It is also important to plan for the type of account that the withdrawals will come from, he continues. For instance, the client's tax rate should be considered, he says, adding that, in most cases, it makes sense to draw from taxable accounts before dipping into tax deferred accounts.

George Middleton, a financial advisor with Limoges Investment Management, Vancouver, Wa., says there is an order for spending funds that include considerations such as withdrawing from both traditional and Roth IRAs so that a client remains in a specific tax bracket.

Joel Ticknor, a financial advisor with Ticknor Atherton and Associates, Reston, Va., maintains that the best withdrawal strategy is to set aside between 2-5 years of distribution funds in high-quality, low cost, short-term bond funds or money market funds, keeping a client’s remaining funds in a globally diversified equity portfolio. When markets are good, withdrawals are taken from equities and when they are bad, from fixed income or money market buckets.

A cash fund of between 12-18 months of expenses is created and replenished with interest, dividends, covered calls and sales, so that equities do not have to be sold in rough markets to create income, says Sidney Blum, a financial advisor with GreenLight Fee Only Advisors, Evanston, Ill.

Matthew Gelfand, a financial advisor with MDG Financial Advisors, Bethesda, Md., says that the sale of a security to provide an income stream needs to factor in the gain of selling that security with the potential loss associated with holding it; the impact of diversification on selling portfolio assets; and taxes on capital gains and required minimum distributions that some clients must make.

Stable investments in RMDs help avoid making withdrawals from stock investments when they've dropped since the RMD calculation date, according to Linda Leitz, a financial advisor with Pinnacle Financial Concepts, Colorado Springs, Co.

Leitz also maintains that having a stable bucket of investments to draw from. This eliminates the need to withdraw equities in a down market, she explains. For instance, she prefers having more liquid assets available, sufficient for 3-5 years of withdrawal, so the client will not need to dip into the equities investments. This way, the client can avoid selling in a down market, and the equities can continue to appreciate if the market is moving up.

For Matt Mikula, a financial advisor with Balasa Dinverno & Foltz, Itasca, Ill., tax efficiency is a large component of planning systematic withdrawals for clients. Most withdrawals come from stocks, bonds and mutual funds rather than from annuities, he says. While guaranteed income offered by annuities "sounds appealing," he says that many clients want control over their assets so that they can provide for their beneficiaries.

But, Mikula adds, if there is a competitive rate in the annuity and the client has other assets, there have been instances in which pension income was placed in an annuity rather than an IRA.

Bedda D'Angelo, president of Fiduciary Solutions, Durham, N.C., says that a number of her clients are boomers that are retired but not yet eligible for Social Security. If a client is highly compensated, there is a good chance the person will have deferred compensation, non-qualified stock options and, in some cases, defined benefit plans, she says. So, when building an income plan, D'Angelo says she tries to cover fixed expenses with fixed income streams. Since receipt of deferred comp and exercise of options must occur within a fixed term following retirement, those payments are stretched as long as possible so the client can postpone withdrawing from capital or tapping in to a 401(k) rollover.

The 401(k) rollover continues to grow using an 80% equities/20% fixed income asset allocation until age 70.5, at which point the client must begin taking RMDs, D'Angelo says. She then modifies the asset allocation to 60% equities and 40% fixed income. Usually, according to D'Angelo, the RMD is "more than adequate to meet their income needs."

In other cases, clients do not yet have Social Security but do have a small 401(k) or other savings and they own a house. Such clients can choose to downsize, relocate to a less expensive part of the country, buy a smaller home and invest the remaining sale proceeds. D'Angelo says her firm will purchase an immediate annuity to create a modest stream of income for the client, who continues to work part time to supplement income.

[To comment on this topic, just click write to the editor.]

Copyright © 2007 by The National Underwriter Company. All rights reserved. Privacy Statement Contact Webmaster Terms of Use

The National Underwriter Company • 5081 Olympic Boulevard, Erlanger, KY 41018 • 1-800-543-0874

Publisher of Insurance Books, Insurance Software and Insurance Magazines
Insurance News and Insurance Books