



The Definitive Guide to Retirement Income Planning

Have you thought about how you'll transition from a monthly paycheck to retirement income? Have you truly thought of everything you need for a seamless transition?










As you prepare for retirement, one of your primary goals will be planning to replace your working income with retirement income from sources such as Social Security, pensions, annuities, real estate, and investments.

We call this process retirement income planning.

As you look to transition to retirement income, creating and then executing a well-thought-out plan can reduce your retirement taxes and reduce your chances of running out of money. Plus, a good retirement plan means improved financial confidence and peace of mind, so you can enjoy your retirement instead of fretting about financials.

Whether you have charitable ambitions, want to create incredible experiences with your grandchildren, or have plans to travel, an income plan can assist you in reaching these goals.

In this eBook, we'll discuss:

-  What is retirement income planning?
-  Why is it important to plan retirement income?
-  How will Social Security impact your retirement income?
-  How to plan your retirement income
-  What is guaranteed retirement income?
-  What is a retirement income gap?
-  How a professional can help with retirement income planning



What Is Retirement Income Planning?

Retirement income planning is the process of transitioning from working income to retirement income. It's moving from being financially dependent on a job to being financially independent due to your financial plan.

Financial resources used to replace your income can vary but may include Social Security, part-time work, investments, annuities, pensions, and real estate.

Social Security is the foundation of retirement income for most Americans. For about half of American seniors, [Social Security](#) provides at least 50% of their income. It even provides 90% of income for a quarter of seniors.

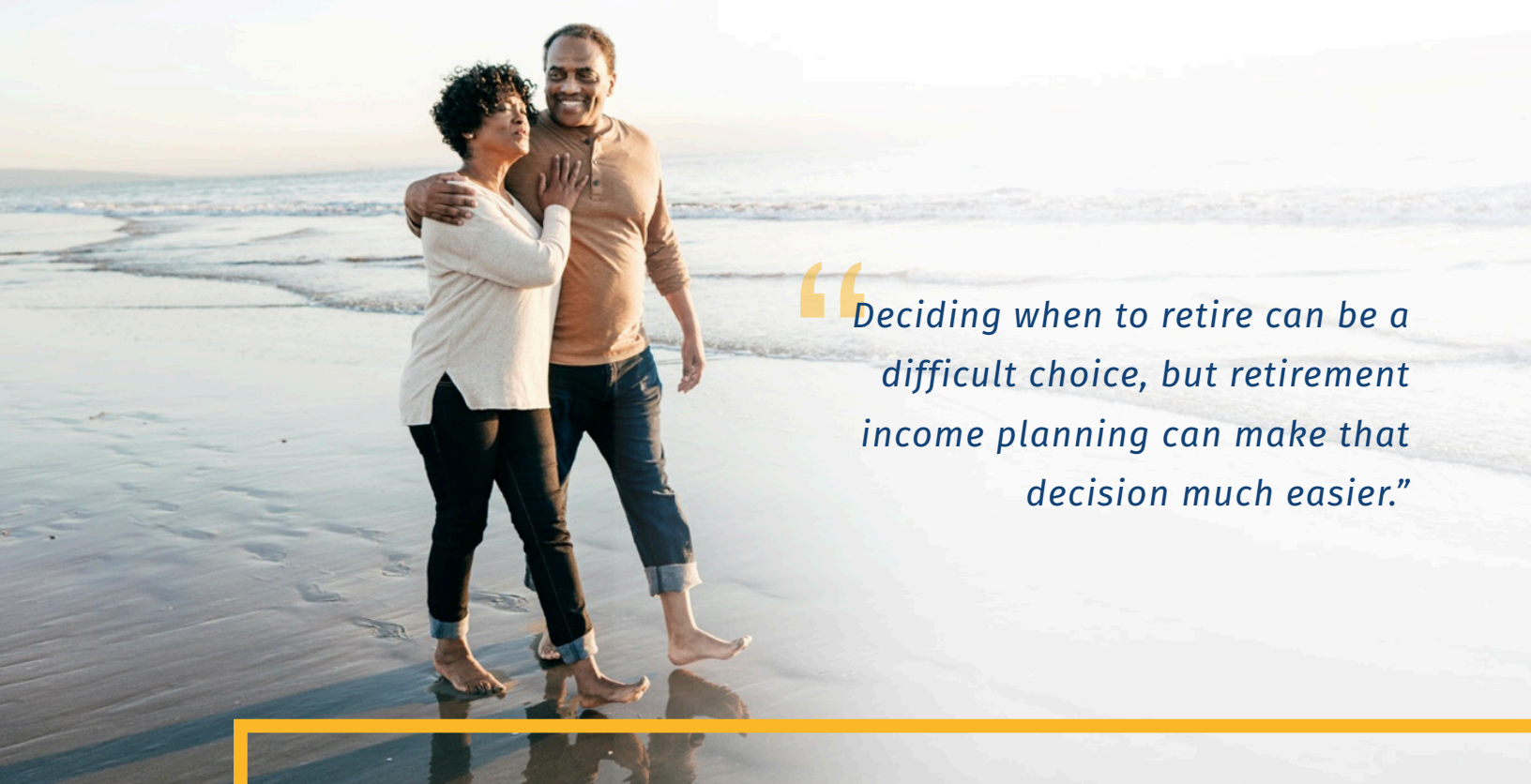
That being said, for most Americans, Social Security won't provide enough retirement income.

It's only one piece of the income planning

puzzle, especially for those who have saved diligently for retirement and accumulated a higher net worth. Generally speaking, the greater the net worth and investments, the greater the need for income planning.

During your working years, your primary objectives were to accumulate and grow your investments. As you retire, you'll need to start spending a percentage of these assets to supplement Social Security and other income sources. Our goal in retirement income planning is to conservatively draw down enough of your assets to create retirement income sufficient for your goals.

Retirement income planning looks to make the smartest decisions possible around how best to utilize all your financial assets. In some cases, this means creating strategies for converting assets into income. Other times, assets can continue to be invested so they can be used at



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Why Is It Important to Plan Retirement Income?

Deciding when to retire can be a difficult choice, but retirement income planning can make that decision much easier. Deciding when to retire becomes much simpler once all your assets, retirement accounts, and resources are coordinated into a single plan.

Income planning can be like dominoes. One area, such as Social Security, can have a domino effect on other areas, such as your taxes and IRA distributions. Likewise, IRA distributions can create extra taxes on Social Security. Consequently, it's important to have a comprehensive plan, so you can see how decisions you make concerning one asset will have ramifications on other assets.

An income plan can also assist you in knowing how much money to draw from your assets on a monthly basis. Take too much income and spend down your nest egg too quickly and you can run out of money. On the other hand, spend down your assets too conservatively and you'll live well beneath your appropriate standard

of living. We've come across retirees that have millionaire status yet live only on Social Security, afraid their accounts will run dry.

Part of knowing how much you can spend means knowing how much your assets might grow. A good income plan will take into consideration how much you've saved and project conservative estimates about the growth of your assets.

If done properly, income planning can help you use the best methods to give to charity and can also assist in making decisions around required minimum distributions from qualified accounts at age 72.

Good income planning may also optimize your tax strategy and reduce the amount you pay to Uncle Sam.

Income planning is a powerful tool for maximizing the savings and benefits you've worked so hard to accrue.

How Will Social Security Impact Your Retirement Income?

When creating a retirement income plan, the first step is to determine how much you (and your spouse) will receive from Social Security and, using that information, decide when to start taking Social Security.

While Social Security claiming is complex, there are a few general rules.

First, it is important to understand your primary insurance amount (PIA). This is the amount you'll receive at [full retirement age \(FRA\)](#) or normal retirement age (NRA), which falls between age 66-67.

Social Security, taken either earlier than full retirement age or later, will be based on this number.

The earliest most people can take Social Security is 62. If you choose to take Social Security at 62, be aware that your benefit will be reduced. You will only receive around 70-75% of your primary insurance amount. This reduction in benefit will be for your entire life.

If you wait until FRA, you'll receive 100% of your primary insurance amount. To see your specific Social Security benefit, set up an account at ssa.gov.

If you choose to delay claiming Social Security past your full retirement age, you'll receive delayed credits of 8% annually until age 70. For those who enjoy working, have sufficient retirement assets, and expect to live a long life, this delayed benefit can be a smart choice.

There are many other decisions and factors that can influence when you claim Social Security, so if you have additional questions on when to take Social Security, feel free to watch our [free Master Class training](#). This training addresses many of the general rules around Social Security, spousal benefits, and even the taxation of your benefits.

If you have more than \$250,000 of retirement assets, Advanced Retirement Strategies can assist you with your Social Security decisions as well.

To get answers related to your specific situation, we invite you to set up a [free Social Security and income analysis](#).



How to Plan Your Retirement Income









There are a number of questions that need to be answered when you're planning retirement income.

1) What is your target retirement age?

Determining when to retire is a key factor in planning your retirement income.

While this question may not be easy, it's important to weigh all of the various factors to give you the chance of the best retirement possible.

Here are some important questions to answer:

-  Do you enjoy work or have you had enough?
-  How is your health?
-  What is your life expectancy?
-  Have you saved and invested enough to supplement your Social Security income?
-  Do you have debt?
-  What are your cash flow needs?
-  Do you need to increase the amount of your Social Security checks?
-  How will you pay for health insurance?



TIP

Transitioning to retirement is not only a financial adjustment, but also a mental and emotional adjustment. Conduct some soul searching before taking the leap to make sure you are completely ready to enter this new phase of life when the time comes.

2) When will you take Social Security?

You shouldn't decide when to take Social Security without looking at your full retirement picture.

Social Security has a broader impact on IRAs, 401(k)s, Roth IRAs, taxes, spousal benefits, and withdrawal strategies, so failing to take these pieces of your financial puzzle into account when making Social Security decisions is often a huge mistake.

Additional items to consider are your health, work situation, available financial assets, marriage status, and longevity. All of these factors will impact your retirement, which will impact your Social Security.

Consider contacting the Social Security office with questions regarding your benefit or working with a fiduciary comprehensive financial advisor who is familiar with claiming strategies and your entire financial circumstances.





3) If you have a pension, which option should you select?

Pensions are a type of employer-sponsored retirement plan that promise a certain amount of retirement income per month once you retire.

Pensions differ from a 401(k) in many ways. Most importantly, a 401(k) doesn't guarantee how much you'll receive per month whereas a pension does.

Pension plan amounts are often tied to the number of years you've worked and your final salary.

Here are some common options with pensions:


-  Single Life – You'll receive a certain amount of income per month for life, but payments will cease when you pass away.
-  Joint and Survivor – A recipient will receive a certain amount of income per month, then a designated survivor will also receive the full or partial benefit for their life.
-  Period Certain – This option allows you to receive a payment for a set number of years. Even if you die before the full period of time, your beneficiaries will continue to receive the annuity.
-  Lump Sum – This option allows you to select a one-time cash payment now, in exchange for no further payments.


We suggest discussing these various options and the pros and cons of each with a financial professional as each pension is unique and circumstance is different.

4) How will your income be taxed?


When planning your retirement income, it's essential to take taxes into consideration.

Ultimately, there are three different tax treatments in retirement.

 The first treatment is taxable money, which must be reported on your tax return and is subject to tax. Examples include interest earned in bank accounts and taxable gains on stock in a brokerage account when you sell it. With taxable accounts, you'll pay either ordinary income tax or capital gain tax rates.

 The second tax treatment is tax-deferred. Your tax-deferred accounts are accounts where you didn't pay tax on your contribution or seed money. Examples of tax-deferred accounts are 401(k)s and IRAs.

These accounts also grow tax-deferred, so you don't pay tax as they increase in value. Instead, when you pull money out of these accounts, your withdrawals will be taxed as ordinary income.

 The third tax treatment is tax-free. With a tax-free account, the taxes were paid on the contribution, so growth and withdrawals are not taxed, as long as you comply with IRS regulations. Examples of tax-free accounts are municipal bonds, Roth IRAs, and certain types of cash value insurance.

With a clear income plan that takes taxes into account, it may be possible to proactively decrease your tax bill during retirement. In fact, there are dozens of advanced tax strategies that can be used in retirement to minimize the impact of taxes.

Generally, the higher your net worth, the greater impact retirement tax strategies can have.

However, making intentional retirement income plan decisions around taxes can result in significant tax savings for many Americans, while ignoring tax planning may have painful tax consequences.

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5) How will you turn your investments and assets into income?

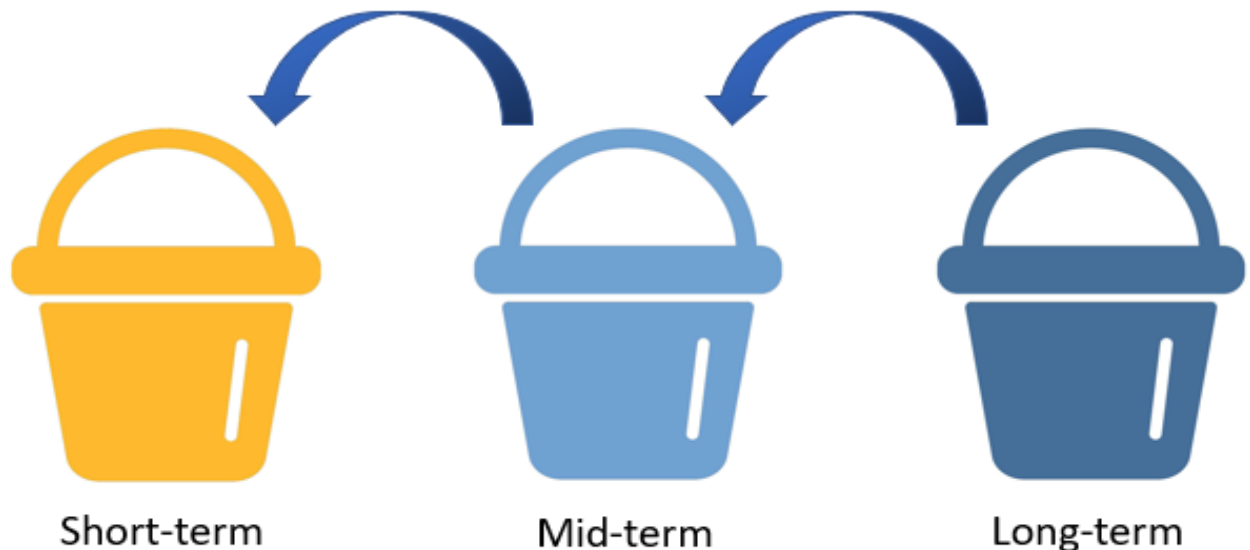
The way you invest should change as you near retirement. Your investments should also change based on your income plan.

In the accumulation stage of investing, your primary goal is usually to grow your money for future retirement needs. As you approach retirement, the focus shifts.

Many individuals with investment assets of at least \$250,000 can divide their portfolios into three different retirement “buckets”.

Each bucket has a different objective and timeline.

Russ Hodgson, the owner and managing principal at Advanced Retirement Strategies has used the bucket strategy with clients in Utah for almost three decades, enough to see it work through the entire retirement cycle.



This bucket holds money you'll need to turn into income in the next 1-3 years. This is money you're depending on accessing in the short term. You'll want to protect this money from market volatility and choose very conservative financial instruments.

This bucket holds money you won't need to access for 4-6 years. It holds conservative investments that will replenish the short-term bucket when exhausted. While these investments can have more risk than those in the short-term bucket, they are still much more conservative than a growth strategy.

This bucket holds money you won't need for 7 or more years. It can participate more fully in market gains and is designed to replenish the mid-term bucket, as needed. It is often used as a legacy bucket for children, grandchildren, or charitable strategies. In up markets, it can also be used for new cars, vacations, or to create meaningful experiences with children and grandchildren.

6) What do you do with your real estate?

PRIMARY RESIDENCE

One of the largest assets many Americans own is their home.

For some Americans, a viable strategy is to downsize their home by selling it, and then use a portion of the gains to fund retirement.

Uncle Sam has made this strategy work from a tax perspective. Currently, if you are married, you can exempt up to \$500,000 of gains when you sell your home (this exemption is allowed every two years).

This can be a great way to improve your retirement income options.

RENTAL PROPERTIES

If you've invested in real estate, your income plan will include any real estate income.

However, as you approach retirement, you have a key retirement decision to make: Do you want to continue to continue to deal with tenants and toilets?

If you want to simplify and eliminate the hassle of being a landlord, then liquidating your real estate and investing the gains into investments could be an important part of your planning.

Please see a financial professional about the tax implications of liquidating any real estate.

7) Will you continue to do consulting or work?

Many retirees continue to work or do consulting during retirement, even if assets and income are more than sufficient for living expenses.

Some individuals work primarily to create income. However, for those with significant assets, continued work is usually about giving back and purpose. Our opinion is that retirement isn't about being put out of use. It's about the freedom during retirement that time and money can give you.

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No matter why you work, the additional income you create will also be included in your plan as it can lower the amount of assets needed to draw down for cash flow.

WHAT IS GUARANTEED RETIREMENT INCOME?

Guaranteed income includes money supplied by a third party that will automatically come into your bank account on a monthly or annual basis.

Often guaranteed income will continue for your entire lifetime, which can create a strong foundation for an income plan.

Social Security, pensions, and income-producing annuities can all be grouped in this category.

As an additional note, in most years Social Security is adjusted for cost of living (COLA), which means that as inflation rises your Social Security monthly payments will also increase. Most other sources of guaranteed income won't increase over your lifetime.

WHAT IS A RETIREMENT INCOME GAP?

Your income gap is the difference between the amount of money you'll want or need for retirement and your guaranteed sources of income (e.g. Social Security, pensions, and annuities).

$$\text{DESIRED INCOME} - \text{GUARANTEED INCOME} = \text{INCOME GAP}$$

To determine your desired income, ask yourself the following two questions:

- 1) What is the minimum amount of monthly income you need during retirement?
- 2) What would be the optimal amount of monthly income to have during retirement (want)?

Essentially, these are budget questions.

The first question is designed to give you the bare bones of retirement cash flow. What would you need to buy food, pay your bills, and live?

The second question gives insight around retirement lifestyle instead of survival. What income level would give you a great lifestyle, allow you to enjoy retirement, and allow you to live comfortably?



TIP

It's better to overestimate your expenses than underestimate them. After all, you can always reinvest extra cash. You cannot, on the other hand, immediately generate additional funds.

A healthy projection of what you will need for retirement income is essential to not running out of money.

Of course, these numbers can be adjusted over time.



How a Professional Can Help with Retirement Income Planning

Income planning decisions are complex and can carry heavy consequences, as retirement money needs to last without running out.

Trying to navigate these uncharted waters on your own can be difficult and mistakes are common.

Using a financial professional who does income planning on a regular basis can give you financial peace of mind as you work through the complexity of assumptions and decisions for your plan.

An income plan should never gather dust. It should be revisited and improved throughout your lifetime. A financial professional can help you analyze your income plan on a regular basis.














At Advanced Retirement Strategies, we review and potentially adjust our clients' income plans at least every six months, as needs change.

As the saying goes, "Life happens!"

Key Takeaways

Whether you're planning on making the retirement transition on your own, with another advisor, or with our team, income planning is an essential ingredient to your success.

In summary, here are some of the keys decisions you'll need to make:

-  Decide when you would like to retire
-  Determine when and how to maximize your Social Security benefit
-  Analyze other guaranteed income sources such as pensions or annuities
-  Make decisions on your primary residence and/or rental properties
-  Decide if you'll continue to work or consult during retirement
-  Determine how much money you need monthly and annually during retirement
-  Subtract your guaranteed income from your desired income to determine your retirement income gap
-  Develop strategies to bridge your retirement income gap
-  Determine how you'll convert your investments into income
-  Anticipate and regularly assess the tax consequences of your income plan
-  Regularly assess and adjust your income plan during retirement
-  Look for new opportunities to apply tax-reducing strategies
-  Consider using our Utah-based team at Advanced Retirement Strategies or another seasoned financial professional to assist you with this process

ADVANCED RETIREMENT STRATEGIES: YOUR PATHWAY TO A RETIREMENT INCOME PLAN

Are you within ten years of retirement?

Between ages fifty to sixty-five, it's quite common to start thinking and planning for retirement (sometimes worrying). Unlike working and saving for retirement, the retirement transition is complex and can be quite overwhelming. At Advanced Retirement Strategies, our expertise and specialty is in assisting clients as they prepare for and then make the retirement jump. Then we continue to assist them throughout their retirement years.

Having worked over many years with hundreds of clients, we've found you'll need to prepare to make three important transitions:

- 1. Transition #1 - Investments** – Generally, many clients need to invest differently as they approach retirement. Investments also can change radically once a client is in retirement. It's not simply about growing money but also reducing taxes and protecting downside risk. It's also about aligning your investments according to your timeline.
- 2. Transition #2 – Income** – One of the most formidable and difficult transitions is moving from income earned through your career to income coming from a variety of sources such as Social Security, pensions, investments, annuities, etc. We create income plans for clients that help you know where and when you'll take income, while also minimizing risks around running out of money.

3. Transition #3 – Trust – Many clients have saved money through qualified accounts at work such as a 401(k) or 403(b). These generally have been managed through workplace relationships. Other clients have added to their net worth through real estate or selling a business. Most clients who work with us have used a variety of financial planners, attorneys, and CPAs during their working years.

As you approach retirement, it's very common that additional professional resources are needed. We offer expertise in Social Security, Medicare, tax minimization, income planning, and at-retirement investing. We're grateful for the many families that added Advanced Retirement Strategies to their financial retirement team.

TAKE THE NEXT STEP

We invite you to call and schedule a complimentary Discovery Meeting. This meeting is no charge and allows us to get to know each other. We can explain our proven process we've developed over many years.

You can reach us at **(385) 249-5652** or www.advancedretirementstrategies.com/get-started

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