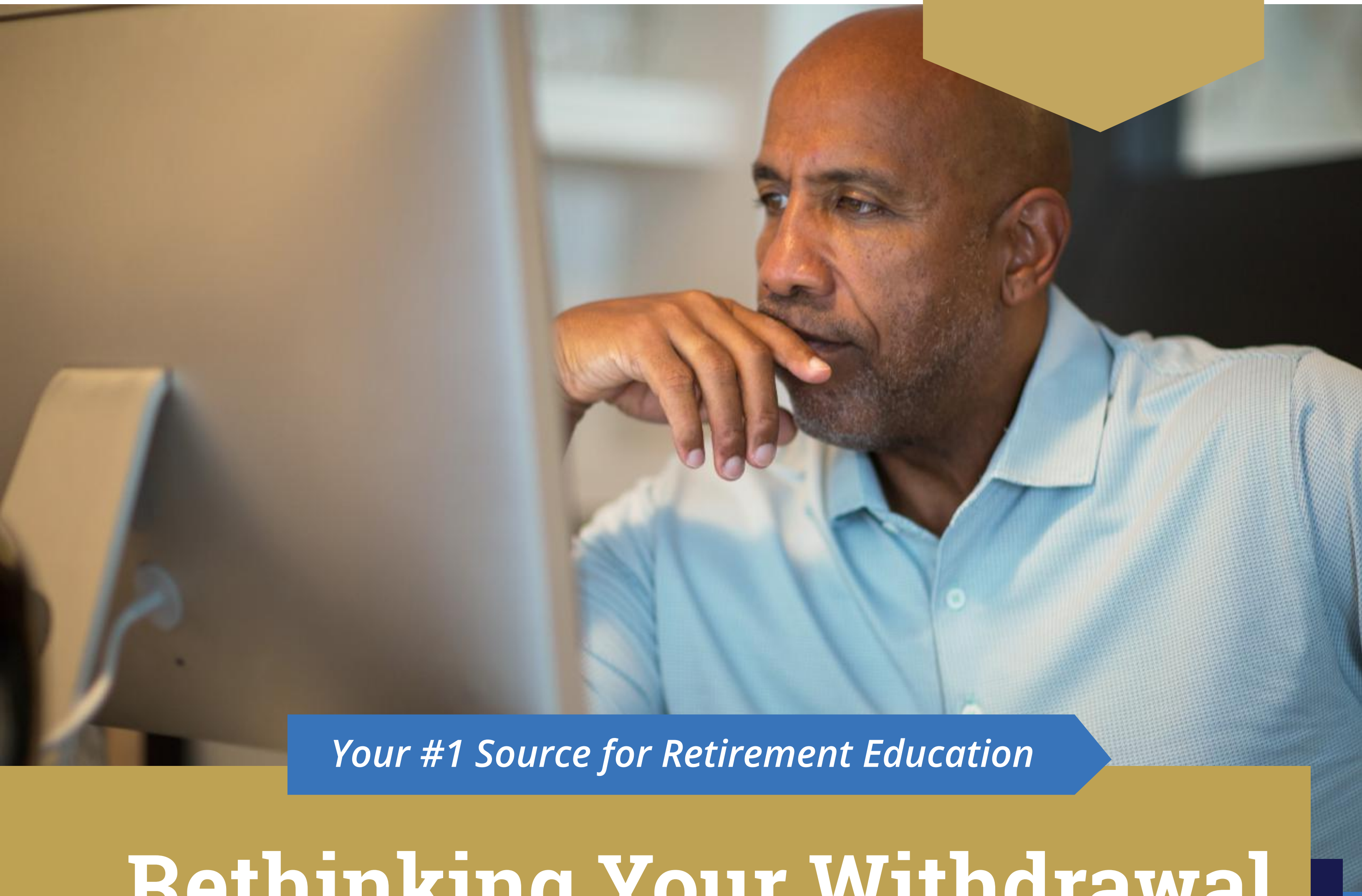
RETIREMENT RISK ADVISORS

Make Your Move Count

FEBRUARY 2023



*Your #1 Source for Retirement Education*

# Rethinking Your Withdrawal Rate for Retirement

Much goes into planning your retirement—years of contributing, saving, and investing. Now as you near retirement, the next important step is to assess and plan how you will withdraw and utilize your funds. And when it comes to the strategy of how to use your money, there is a lot to consider before you just withdraw a set amount.

## Why is Withdrawal Rate a Retirement Risk?

How you withdraw and have your money distributed during retirement is a key factor to how long your money will last. Everyone's retirement goals, needs, and dreams are different so there is no one-size-fits-all approach for retirement withdrawals of your assets. The objective is to get a strategy as unique as your circumstances to prolong the life of your money. The last thing you want is your money running out a decade or so into retirement when you have 30-40 years, if not longer, to fund!

# Considerations as You Plan for Your Upcoming Retirement

Decades of working and you're finally able to see retirement on the horizon—even if you don't have a set date. Now is the time to really buckle down and evaluate your needs and vision for retirement. Examining your lifestyle will help ensure that you are as ready for retirement as possible!

The major question to ask yourself is how you want to spend your retirement. Do you see yourself working part-time? Traveling? Spending more time with family and friends? From there a realistic plan needs assembled to determine your financial needs and evaluate your current financial resources. This could begin with monthly evaluations of your budget and spending to see where to cut back, shop sales or discounts, or what items are truly necessities for your ideal retirement lifestyle.

If you are especially 5-10 years away from retirement the following list is great to help you consider your withdrawal strategy of your retirement accounts and assets. It could even boost your retirement income and help you better plan for expenses.

## Diversification and Growth

Towards the end of your working years, you may want to resort to protecting your money, but you still have plenty of time for growth and diversification. Finding a balance within your portfolio that promotes growth is ideal. There are various retirement products that could protect your principal amount and still allow for great growth and may even be tax advantaged. Not only will this provide more money for when you need to withdraw, but it will help prolong the longevity of your money and address other risks you may face during retirement such as inflation or sequence of returns.

## Taking Advantage of Retirement Accounts & Catch-Up Contributions

If you can, increase your retirement contributions for your 401(k)s, IRAs, or other retirement accounts and utilize employer matches if available. This will help generate more income! If you are over 50 opt in for the extra catch-up contributions.

Another good thing to consider as your near retirement is to simplify and consolidate your retirement accounts if you can. For example, if you have other 401(k)s from previous employers consider combining or rolling them over.

## Debt Downsizing

Assess your debt—mortgage, credit card, student loans—and try to curb those to the best of your ability. High interest debt should be paid off first and limit new debt if you can. This will eliminate your retirement income going towards debt and open more for other expenses that may arise like health care costs.

## Your Likely Retirement Income

Predict your income for retirement based off Social Security, pension, and other wages and savings. Having the predictable income calculated will help determine the rest of your needed income from assets and other investments. Typically, your retirement needs are 70-80% of the last few years of your working years. Furthermore, it is important here to evaluate your monthly budget and spending to get an accurate look at what you will need during your retirement years. Knowing this and the predictable income you will have during your retirement years will help calculate the rest of what you will need to fully fund the longest, self-imposed unemployment period you will have.

## Estimate Retirement Expenses

When looking at your monthly spending and budget during your working years, there are a few other things to consider in retirement that may not be typical expenses now for you. Some of these may be higher medical and health care costs, more traveling expenses, transportation, additional care. There may be areas of your projected expenses that could decrease like clothing or even food/takeout.

## Future Medical Costs

Once you are 65, Medicare will kick in and depending on your plan, most of your routine health care costs will be covered. However, you will need supplemental coverage for eyecare, vision, and dental. Moreover, Medicare does not cover long-term care costs so that is a different insurance or plan you will need to plan for as well.

Long-term care insurance could protect your retirement assets by providing coverage for aids, nursing home stays, or any other assistance you would need in case you experience a long-term care event.

For this, if you qualify, open a health savings account if you haven't already. If you have and are contributing, contribute the maximum amount. These accounts are tax-advantaged, and penalties may apply if distributions are not used for qualifying medical expenses.

## Living Situation Matters

Do you know where you plan to live? If you moved, for example, to a lower-tax state or an area with a slightly lower standard of living costs your expenses would decline. Consider downsizing to free up some income. If you are happy where you are, consider preparing to age in place before it is too late. Modifications and adjustments may be hefty costs to fork over all at once—i.e., a chairlift or adding/remodeling a room so you can live on the first floor.

## Never Too Late to Start

Retirement can be a distant even and be just on the horizon. However, the goal is to be realistic and evaluate your needs and make sure you do not run out of money in retirement. Make sure your retirement is set up so when it does come time to withdraw you know exactly what needs to be done.

# Retirement Withdrawal Strategies and Methods

Knowing how to withdraw your money from your retirement accounts doesn't translate directly to sitting to one fixed method the entire time. Every CPA's retirement is unique and what will work for one may not work for another. Some key factors that contribute to your withdrawal rate are:

- Retirement Age
- Predictable Income
- Retirement Portfolio
- Retirement Needs & Lifestyle
- Other Risk Tolerance

## Determine Your Investment Mix

Considering all the factors, the next step is to evaluate your investment portfolio. Do your investments support your long-term goals? Are they diversified enough to help reduce other risks you may face like inflation, longevity, or market downturn? The important thing to have in your retirement assets is the potential for growth while still withdrawing.

### Strategy: 4% Rule

A fixed rate may be that perfect strategy for some retirees. Systematic withdrawals offer control for a specific period, but many people don't consider these factors with the 4% rule:

- Low interest rates make traditionally income-producing investments generate less income than expected
- Inflation erodes the buying and spending power over time so you may need to withdraw larger amounts down the road
- If the principal value of your investment is to decrease you will have less of your portfolio to withdraw from
- Your income needs may become inconsistent due to increasing health care or medical costs. Thus, increasing the need for more money later in retirement

If you need a set amount withdrawn for a specific length of time, this method is perfect. Say you plan to work part-time for the first 5+10 years of retirement or are killing time until your Social Security benefits kick in.

### Strategy: Buckets of Investment

Buckets help diversify your assets and provide different streams of income for you. One bucket may hold cash such as your emergency fund or another could hold fixed-income investments and protect principal. The last would hold the most growth for a longer period.

This strategy requires you work with an advisor to determine proper allocation and that your investments are protected and fit your long-term retirement goals.

## Strategy: Interest-Only Income

Depending on your retirement accounts, you may be only to pull from the interest earned without drawing on the principal balance. However, specific assets may unfortunately have penalties if you withdraw on interest only until a certain age.

This method does offer flexibility of switching from income stream to income stream yearly. This is another strategy that can be good for those transitioning from working full-time to part-time then to full retirement or those waiting for other income streams to kick in.

## Important: Required Minimum Distributions

Federal tax rules deem you must begin taking required minimum distributions (RMDs) from tax-deferred retirement accounts such as 403(b)s or 401(k)s by April 1st after you turn the Stated Age. Same with your IRAs. Your Stated Age is as determined: age 71 if born 1950 or earlier; 73 if born 1951-1959; and 75 if born 1960 or later. Failure to take your RMD on time could result in a 25% penalty.

**Other things to consider with RMDs:**

- The set amount you must take depends on your age, life expectancy, and year-end account balance
- For multiple accounts, each RMD needs calculated separately but you can withdraw the total amount from just one account
- Roth IRAs and other non-qualified employee-sponsors plans do not require RMDs
- You cannot rollover RMDs into other tax-advantaged accounts
- If you are still working at your Stated Age, you may be able to defer RMD withdrawal from your 401(k) or 403(b). However, the same does not apply to IRAs.

Having a withdrawal strategy in place for your retirement is important to ensure your funds last as long as you do and to also help reduce other risks you may encounter during retirement (market risk, tax risk, inflation risk). The last thing you want is to outlive your money and die broke.

# February Webinars

2/6/2023 – Social Security – A Complete Overview of the Program and Benefits

2/7/2023 – Choosing the Right Life Insurance for Your Retirement

2/8/2023 – Getting Safely Through Retirement – A New Paradigm in Retirement Planning

2/9/2023 – The Volatility Shield: How to Make Your Retirement Income Last 15 Years Longer

2/13/2023 – Investment & Distribution Pitfalls Facing Your Retirement

2/15/2023 – Getting Safely Through Retirement – A New Paradigm in Retirement Planning

2/16/2023 – Maximize Retirement Cash Flow Using a 3-Bucket System

2/20/2023 – 2023 and Beyond: Recent Changes to Social Security and Medicare

2/21/2023 – Long-Term Care and Elder Abuse: Unsolved Risks for Many Retirees

2/21/2023 – Getting Safely Through Retirement – A New Paradigm in Retirement Planning

2/28/2023 – Take Control of Your Retirement with A Self-Directed Plan

***RetirementRiskAdvisors.com/events***

## Contact


(855) 491-0400

support@retirementriskadvisors.com
www.retirementriskadvisors.com

1309 Coffeen Avenue, Suite 3851
Sheridan, WY 82801