Converting Wealth to Income

Perhaps our single surpassing investment challenge is to accumulate and maintain sufficient assets to sustain us during the years when we are either no longer working or when our earned income is substantially lower.

There are numerous strategies and thousands of investment combinations that can be used to accumulate wealth. But when the accumulation phase ends and you need to begin converting your accumulated wealth to income, the number of generally-accepted strategies narrows. Before deciding on your retirement income strategy, you need to answer these four questions:

1. How much do I anticipate needing?
2. Starting when?
3. For how long? (It may be longer than you think!)
4. What are my sources of income? For example: Social Security, IRAs, company retirement plan distribution, pension, etc.

Finding answers to questions 2 and 4 is relatively easy. Arriving at accurate answers for questions 1 and 3 is trickier. Several factors make these two questions especially difficult:

- **Longevity:** We tend to underestimate how long we will need retirement income.
- **Rising costs:** Inflation in the costs for goods, services and health care.
- **Market risk:** An investment strategy that is too conservative may not provide sufficient long-term growth to sustain the purchasing power of your income during retirement. An investment strategy that is too aggressive may increase the potential for extreme and unrecoverable losses.
- **Excess withdrawals:** Spending too much too early in your retirement increases the possibility that you will deplete your assets too early.

After considering the questions and factors outlined above, you need to determine your investment strategy or priority. While there is no guarantee that any investment strategy will achieve its objective, generate profits or avoid losses, the following example strategies represent good starting points toward arriving at a retirement strategy that makes sense to you.

Diversified Fixed-Income Portfolio

General attributes:

- Reliable fixed-income stream
- Ideal for risk aversion
- Potential loss of purchasing power due to inflation
- Probability of early depletion of assets
- Example investments include:
    - Certificate of Deposits (CDs)
    - Treasuries
    - Individual bonds
    - Bond mutual funds
    - Fixed-rate tax-deferred annuities
    - Single premium immediate annuities

Single Premium Immediate Annuities

General attributes:

- Provides a lifetime income stream
- Reliability of income is dependent on financial strength of the insurance company
- Control of the assets transferred to the insurance company
- Best used to cover essential expenses only
- Potential loss of purchasing power due to inflation

Separate Income and Growth "Buckets" Portfolio

General structure and attributes:

- Potential for asset growth
- Less affected by short-term market fluctuations
- Possibility of early depletion of assets

Separate "income buckets;" for example, 2-year, 5-year, 10-year buckets depleted over specified time periods. Example investment categories include:

- Money Market/Savings
- Certificate of Deposits (CDs)
- Individual bonds

Separate "growth buckets;" for example, 10-year, 15-year, 20-year buckets, etc. to replace depleted income buckets. Example investment categories include:

- Individual stocks
- Actively-managed stock mutual funds
- Exchange-traded funds (ETFs) and broad-market index funds

"Total Return" Portfolio with Systematic Withdrawals

General attributes:

- Portfolio composed of a broadly-diversified combination of investment categories
- Regular, pro rata withdrawals
- Requires periodic rebalancing of the portfolio to its strategic allocation target percentages
- Potential for asset growth, but…
- Potential for rapid depletion of assets from selling equities at depressed prices in a down market
- Possibility of early depletion of assets
- Limit withdrawal rate to 4% or less