

## Managing Your Retirement Income

Whatever your hopes and dreams for retirement, the reality is that the income that replaces your wages will prove to be the key to attaining the quality of life in retirement that you envision. Social Security is a start. A pension from the company retirement plan may augment that income. But managing the income from your investments will require a more active role. Below are three key decisions, among many, that you'll need to make.

### Deciding When to Make Your Moves

Will you be making changes in the kinds of investments that you have when you retire? Many people want to increase their share of income-producing investments or seek more security and less risk.

It is impossible to predict the best time to move from one particular investment class into another (from stocks into bonds, for example). One recommended strategy is to shift investments gradually, perhaps over two or three years. This kind of "transitioning" reduces the impact of the market environment at any one point in time.

Keep in mind, however, that you shouldn't follow the process too strictly. Taxes and transaction costs will need to be factored into the equation.

### Deciding From Where to Withdraw Your Money

Some of your retirement income will be paid regularly and automatically (Social Security benefits, for instance). But if you need additional income to meet your expenses, which of your investments should you tap?

From a tax perspective, withdrawing money from an IRA doesn't make sense if it isn't necessary. Your investments are earning tax-deferred income, and that's too valuable a benefit to give up, if you don't have to. (Once you reach age 70 1/2, you will, by law, have to begin regularly scheduled withdrawals.)

Instead, many professionals suggest setting up a "spending account." A spending account is made up of liquid assets—for example, a money market fund. The account will provide a source of additional income to meet your regular expenses when other sources are insufficient. The rule of thumb is to keep enough in the account to meet one year's expenses. Of course, the amount in the fund will fluctuate as you make withdrawals and additions to the account.

### Deciding Your "Withdrawal" Rate

How much can you "safely" withdraw from your retirement money each year and make sure that enough remains available to last for the rest of your life?

There is no shortage of opinions and studies on the subject. During the bull market years of the 1990s, some retirement planners suggested that you could withdraw 5% to 6% a year without eating into your principal. One study published last year in a financial planning journal kept to that number. But others are putting the rate at a more conservative 3% to 4% range.

But more than figures will enter into your decision. How comfortable you are about having enough to last through retirement, the expenses associated with your retirement activities, and your feelings about how much you want to leave to your heirs also may influence your decision.

## Endnote

This brief discussion only touches on the important subject of retirement planning. We'll be glad to discuss your needs and assist you in crafting a strategy that will help ensure that you enjoy the kind of retirement that you deserve.

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Any developments occurring after January 1, 2008, are not reflected in this article.