

RETIREMENT RETIREMENT INCOME

Retirement Income: Five Steps to a Sound Plan

Jonathan Guyton | June 3, 2014

You want to be sure that your income will last throughout retirement. A financial planner offers key guidelines.

The moment you announce your retirement is a big deal. Few voluntary life transitions—besides marriage or having children—can match it. So before you tell your boss that you're calling it a career, it's important to make sure your retirement income plan is really ready.

My advice is based on the growing body of research about generating a sustainable retirement income. Some of this is my own [published research](#), including the first-ever study to show how higher safe withdrawal amounts are possible—if you can be a bit flexible in your spending following years with especially poor investment returns.

And I've also learned a lot from watching dozens of our clients implement this advice to achieve a comfortable retirement. Based on this research and experience, I've come up with five guidelines to help you get ready to tap your nest egg:

1) Set a sustainable income target. To meet your core expenses, including health care and taxes, you'll need a regular stream of payments that will increase with inflation. Start by detailing your core retirement spending needs, then determine the portfolio withdrawal rate it will take for your assets to fund them. Make sure your plan is based on solid research and your level of spending flexibility.

2) Get the most out of Social Security. If you're married and one of you is in good health, try to wait till age 70, when you can file for the largest possible benefit. Otherwise, you may be leaving tens of thousands on Uncle Sam's table. Remember that the bigger check is what the surviving spouse keeps regardless of who dies first. To make this strategy work, you may have to tap other income sources to fund your spending while you wait.

3) Choose the right asset allocation. Holding too little in stocks can be even more costly than holding too much—that's because equities are likely the only assets able to generate the long-term returns needed to sustain your retirement income. Make sure you're well-read on the [recent research](#) that's been published on navigating the inevitable market ups and downs. Yes, stocks are risky, but even the recent market crash didn't sink most plans unless you panicked at exactly the wrong time.

4) Be smart about taxes. Your current tax bracket matters a lot less than your bracket when you or your heirs take IRA distributions. A good strategy can be to spread out these withdrawals so their taxation can occur at lower federal tax brackets. Delaying can cause higher taxable amounts that may push your into much higher brackets. In 2014 singles are taxed at just 10% on their first \$9,075 of taxable income after deductions; for married

MORE

[This Is a Horrible Realization About Retirement](#)

[Another Shark Attacks Swimmer Off North Carolina Coast NBC News](#)

[Macy's Cuts Ties With Donald Trump Over Mexico Comments NBC News](#)

[GoPro-Wearing Turtle Films Tour of Great Barrier Reef NBC News](#)

couples filing jointly, it's \$18,150. Rates then rise to 15% until \$36,900 for singles and \$73,800 for married couples. The next bracket jumps to 25%. In years when your income is low, take full advantage of the opportunity by doing [Roth conversions](#) in modest amounts that won't trigger a move up in brackets.

5) Leave room for splurges. You don't want to jeopardize your financial security, but you want to enjoy your retirement too. Set aside 5%-10% of your nest egg as a [discretionary fund](#) for that trip to Paris or seasons tickets to your local team's games. That way, you can have your fun and still avoid poking dangerous holes in your retirement income plan with each extra "just-this-time" withdrawal.

Once you launch your retirement, you'll want to keep tracking your spending and keep your plan on course. Consider setting up a [withdrawal policy statement](#) as a guide for the adjustments you may need to make along the way. Having these policies in place can help keep your emotions from getting the best of you during choppy markets or life's upheavals.

If you found yourself confidently checking off these items as you read, chances are your retirement income plan is well on its way to being ship-shape. Bon voyage!

Jonathan Guyton, CFP is a nationally-recognized financial planner and a retirement columnist for the Journal of Financial Planning. A Principal at Cornerstone Wealth Advisors, a fee-only advisory firm in Minneapolis, he can be reached at jon@cornerstonewealthadvisors.com.