# 3 Keys to Your Retirement Income Plan

Build income plans with guaranteed income, * growth potential, and flexibility in mind.

### Key takeaways

✓ A retirement income plan should include guaranteed income, * growth potential, and flexibility.

✓ Prepare for life's eventual curveballs with a retirement plan that combines income from multiple sources.

✓ Consider working with a financial professional on your retirement income plan.

We all know that there is no one-size-fits-all retirement. You may want to travel the world. Your neighbor may want to garden and read. Likewise, there is no one-size-fits-all retirement plan. Finding the right mix for you depends on a myriad of factors including your savings, expenses, health, family, and values.

The good news is that whatever your situation, you can help improve your retirement readiness (and potentially your retirement lifestyle) by learning about 3 essential building blocks for retirement income plans. Combining them can provide a combination of growth potential, guaranteed income, * and the flexibility to adjust as your needs change, or life throws a curveball.

We believe a solid retirement income plan should provide 3 things:

- Guarantees to ensure core expenses are covered
- Growth potential to meet long-term needs and legacy goals
- Flexibility to refine your plan as needed over time

### 1. Use guaranteed income* to help pay for your essential expenses

When you create your plan, first and foremost, you'll want to make sure your day-to-day expenses—nonnegotiable costs, such as housing, food, utilities, taxes, and health care—are covered by lifetime guaranteed income sources. There are essentially 3 sources of guaranteed income.

**Social Security:** This is a foundational source of income for most people. When you decide to take it may have a big impact on your retirement. It can be tempting to claim your benefit as soon as you're eligible for Social Security—typically at age 62. But that can be a costly move. If you start taking Social Security at 62, rather than waiting until your full retirement age (FRA), you will receive reduced monthly benefits. (FRA ranges from 66 to 67, depending on the year in which you were born.) Find out your full retirement age, and work with your financial professional to explore how the timing of your Social Security benefit fits into your overall plan.

**Pensions:** Although pensions used to be commonplace, they aren't so much anymore. Indeed, only about 13 million currently employed people have a defined benefit pension plan in the US, according to the Pension Benefit Guaranty Corporation.[1] If you're one of those people, you'll want to weigh the pros and cons of how you withdraw the money—as a lump sum or stream of income. If you don't have a pension, there are other ways to create a pension-like stream of income.

**Fixed income annuities:** fixed income annuity is a contract managed by an insurance company that, in return for an upfront investment, guarantees* to pay you (or you and your spouse) a set amount of income either for the rest of your life (and the life of a surviving spouse in the case of a joint and survivor annuity) for a set period of time. Generally, there are different types of income annuities you may consider:

- immediate income annuity
- deferred income annuity
- fixed deferred annuity with a guaranteed lifetime withdrawal benefit (GLWB)

Each allows you to buy an annuity now that would provide payments for the rest of your life to supplement retirement income and/or to manage longevity risk. Immediate income annuities begin paying income immediately; deferred annuities start at a date you determine in the future. Fixed payments continue and don't change regardless of what happens in the financial markets.

There are a few things to keep in mind, though. You may give up access to the savings you use to purchase an immediate or deferred income annuity, so you'll need to have other money available for unexpected expenses.

When you purchase a fixed deferred annuity with a GLWB, your future income amount is guaranteed to increase on each contract anniversary for a set period of time or until your first lifetime withdrawal, whichever comes first. You will know how much income you (or you and your spouse for joint contracts) will receive each year at any age you decide to take withdrawals.

Lastly, if you purchase fixed annuities, you also forgo any growth potential for this money; however, you may select an annual increase in payments, called a cost-of-living adjustment, to help offset inflation. There is no additional fee because income payments are lower when the rider is elected. In addition, there are options to provide a benefit to your heirs, if that is an option that is important to you.

**Tip:** While each type of annuity can offer an attractive blend of features, work with your financial professional to help determine which annuity or a combination of annuities is appropriate for you in building a diversified income plan.

**2. Seek growth potential to meet your long-term needs**

As you build your income plan, it's important to include some investments with growth potential that may help keep up with inflation through the years.

You'll want to consider how you can pay for those fun things you've always dreamed about doing when you finally have the time—things like vacations, hobbies, and other nice-to-haves. It's a smart strategy to pay for these kinds of expenses from your investments. That's because if the market were to perform poorly, you could always cut back on some of these expenses.

It's important to consider a mix of stocks, bonds, and cash that takes into account your time horizon, financial situation, and tolerance for market shifts. An overly conservative strategy can result in missing out on the long-term growth potential of stocks, while an overly aggressive strategy can mean taking on undue risk during volatile markets.

Creating and managing your investments in retirement requires some effort along with the discipline to stay on plan even during volatile markets. You need to carefully research investment options and choose ones that match your goals. You also need to monitor your investments, and rebalance the mix of stocks, bonds, and cash when needed. It’s important to manage taxes on your investments too.

An employer stock plan may also help fund your retirement, but don’t forget these investments often trigger an income tax event, which can affect Social Security payments, and other aspects of your retirement plan. So always include your stock awards in your planning with your financial professional.

**Tip:** If you don’t have the time or inclination to manage your own portfolio, a professionally managed account might be a better option.

**3. Be flexible and refine your income plan over time**

You want to have a plan that can adapt to life's inevitable curveballs. Five years into your retirement, you might receive an inheritance, have your parents move in, or experience another significant life event. When these things happen, you need a plan that gives you the ability to make adjustments along the way.

That's why it's important to combine income from multiple sources to create a diversified income stream in retirement. Complementary income sources can work together to help reduce the effects of some important key risks, such as inflation, longevity, and market volatility.

For example, taking withdrawals from your investment portfolio gives you the flexibility to change the amount you withdraw each month, but does not guarantee income for life. On the other hand, income annuities provide guaranteed income for life, but may not offer as much flexibility or income growth potential.

**Tip:** Flexibility may also be important when you begin to take required minimum distributions (RMDs) once you reach age 72. If you're planning to spend your RMDs to cover your ongoing retirement expenses, you may want to work with a financial professional to determine tax efficient ways to take those withdrawals, year after year.

**A note on principal preservation**

As part of your overall financial plan, you may also wish to preserve some principal for use in an emergency or to leave a legacy for heirs. You can accomplish this separately from, or in conjunction with, a diversified income plan.

But remember, investments that aim to preserve your principal,[2] such as money market funds, CDs, or Treasury bonds, come with a different sort of risk. These investments generally offer relatively low yields—and your principal might not be large enough to generate enough income from interest or dividends to fund your desired retirement lifestyle. Plus, if you invest too conservatively, your savings may not grow enough to keep pace with inflation.

**Understanding the tradeoffs as you build your income strategy**

Everyone's situation is unique, so there’s no one income strategy that will work for all investors. You'll need to determine the relative importance of growth potential, guarantees, or flexibility to help you pinpoint the strategy that is right for you in retirement. Of course, there are tradeoffs. For instance, more growth potential can mean settling for less guaranteed income. With more guarantees, you get less growth potential and less flexibility. If you have an employer stock plan, then there are the risks of concentrated positions to compare against the benefits of potential long-term incentives. Consider, too, your family's history regarding longevity and whether you plan to leave a legacy to your heirs.

**5 steps to consider:**

So, how do you get started? Here are 5 steps to consider taking to help create a diversified income plan:

1. Identify your personal and financial goals.
2. Complete a retirement income plan to help determine if you'll have enough money to last throughout retirement.
3. Figure out when to take Social Security; how much of your investment portfolio you want to allocate to an emergency fund, income protection (via annuities), and growth potential; and who will manage your investment portfolio.
4. Implement your plan with an appropriate mix of income-producing investments to balance your financial needs, goals, risk tolerance and investment priorities in retirement.
5. Set up regular reviews with a financial professional to make sure your investment plan is on track to help meet your lifestyle and income needs.