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WEALTH MANAGEMENT

Monthly Insight

Want to Maximize Your Retirement Income?
Follow These 3 Steps

You may have heard it said that there are two ways to generate income: people at work or money at work.

Retirement, of course, is the point in our lives when we hope to spend less time putting ourselves to work and more time allowing our money to work for us. For that reason, during our working years, we try to sock away as much as we can in IRAs, 401(k)s, and other investment accounts so that when we enter retirement, we'll have plenty of resources to harness.

It's important to remember, especially as we approach retirement, that at some point our focus must shift from the best strategies for accumulation — saving and investing for growth — to the best strategies for drawing income from what we've accumulated.

In our work with thriving retirees, we assist clients in developing smart game plans for putting money to work in the most efficient way to ensure a predictable income stream that will last as long as they need it. Here is a simple, three-step approach to making your nest egg work as hard for you in retirement as you worked to accumulate it.

1. Build Your Safety Net

Market volatility will be with us as long as markets are with us. Not only that, but the retirement years can be a time of unexpected expenses. That's why it's important to make sure you have adequate cash reserves on hand to provide protection against the always-unpredictable future.

Your "safety bucket" might be constructed by first setting aside about a year's worth of living expenses, after subtracting your Social Security benefits and other sources of regular monthly or annual income. This portion of your assets should be in cash or cash equivalents, like money market accounts.

The second part of the bucket — about two to four years' worth of expenses — might be composed of short-term bonds or bond funds. In a market downturn, these assets will be less likely to lose significant value, protecting you from the need to liquidate assets at a loss as you wait for the market to recover. Annuities can also be a source of regular income, but it is very important to check the fees and other expenses associated with them. You should also be assured of the financial stability and quality of the issuing insurance company, since this is your only guarantee that the payouts will occur as anticipated.

2. Earmark Assets for Growth and Income

Especially with Americans living longer in retirement, it is more vital than ever to allocate a portion of your portfolio for longer-term growth. But growth potential doesn't have to exclude income. Dividend-paying stocks of soundly run corporations — or high-quality stock mutual funds — can offer both the comfort of a quarterly check and potential for steady growth and a hedge against inflation.

Regular dividends can help create a steady "cash drip" into your investment bucket, and the ongoing increase in value of the underlying stock can help make sure that your portfolio continues to multiply during your retirement years.

It is important, however, to exercise some judgment here. For example, utility companies often offer attractive dividends, but they can be negatively affected by rising interest rates. Similarly, while the large energy companies have historically paid high dividends, they can suffer from depressed oil prices or cataclysmic events like the Deepwater Horizon oil spill. A qualified professional financial advisor can be of tremendous assistance when evaluating stocks or stock funds for income and growth.

3. Manage Distributions for Total Return

So far, we've discussed some ways to deploy your assets in various buckets, earmarked for distinct purposes. But now, let's consider an approach to taking income from your portfolio in a way that takes maximum advantage of the strategy.

Many investors have the idea that they should use only dividends and interest as income and should never touch the principle or spend down their portfolio by selling core equities. However, this is not always the case. When we incorporate the important principles of rebalancing and asset allocation into the total return approach to portfolio management, it may, at times, make sense to sell some assets in order to generate income.

For example, let's say that you and your advisor have determined that you should hold no more than 40% of your assets in equities. If the equity portion of the portfolio has experienced growth that pushes it beyond that percentage, it may be time to rebalance by selling some of the equities and reallocating a portion of the proceeds to cash or short-term bonds. In other words, rebalancing can allow you to harvest gains and re-deploy those funds in an area of your portfolio that requires it. In a low-interest rate environment, this can also be a great way to expand your retirement income beyond the limits of what your bonds and other fixed-income investments are able to provide.

The key to any successful portfolio design, of course, is appropriate diversification among asset classes and, in the case of fixed-income investments, among maturities and quality categories. By holding diverse investments with differing characteristics, investors can mitigate the risks associated with various market conditions and reduce the overall market volatility of the portfolio.

A qualified, professional, fiduciary advisor can help you develop an asset allocation and diversification strategy that is right for your goals, lifestyle, and tolerance for risk. If you have questions, please let us know — we can help you find the answers you need.

Stay Diversified, Stay *Your* Course!

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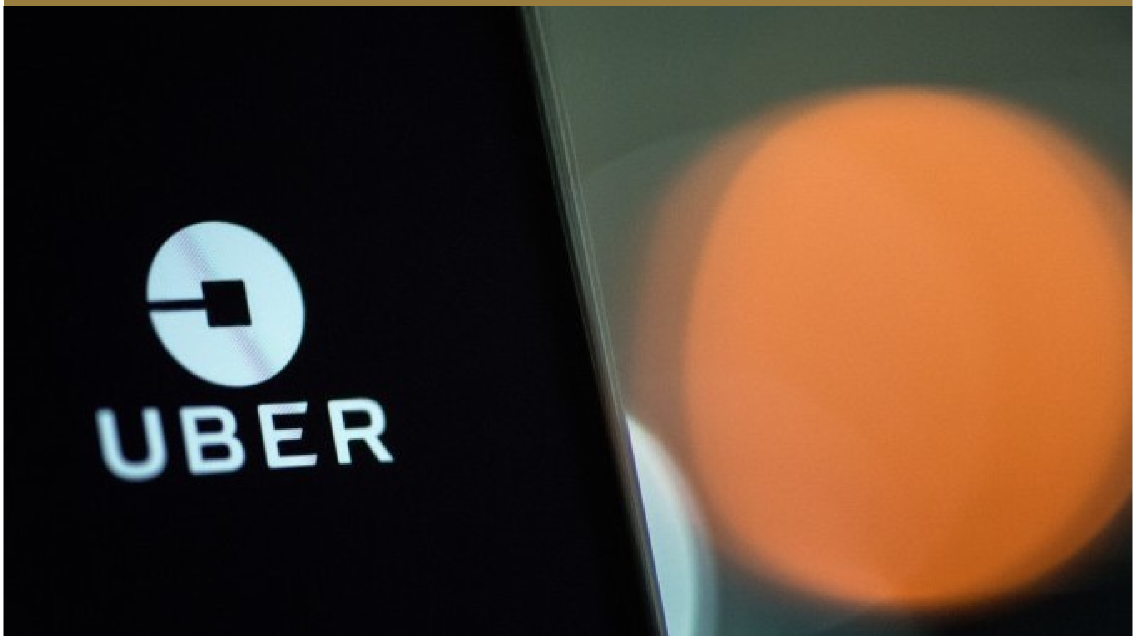

New Feature for Financial Planning Magazine

This year's unprecedented number of tech IPOs will create a major windfall for employees at companies like Uber, Lyft and Airbnb. The unfortunate reality is that many of these newly-minted millionaires are unprepared for the complexity that sudden wealth can bring.

Don't miss my latest column, in which I share how we at Empyrion plan to help smooth the transition. Read More

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KIMBERLY FOSS
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"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for

wealth management."