

You've Reached the

Retirement Summit.

Now What?

Four questions to help shape your strategy for spending the retirement income you've worked a lifetime to build.

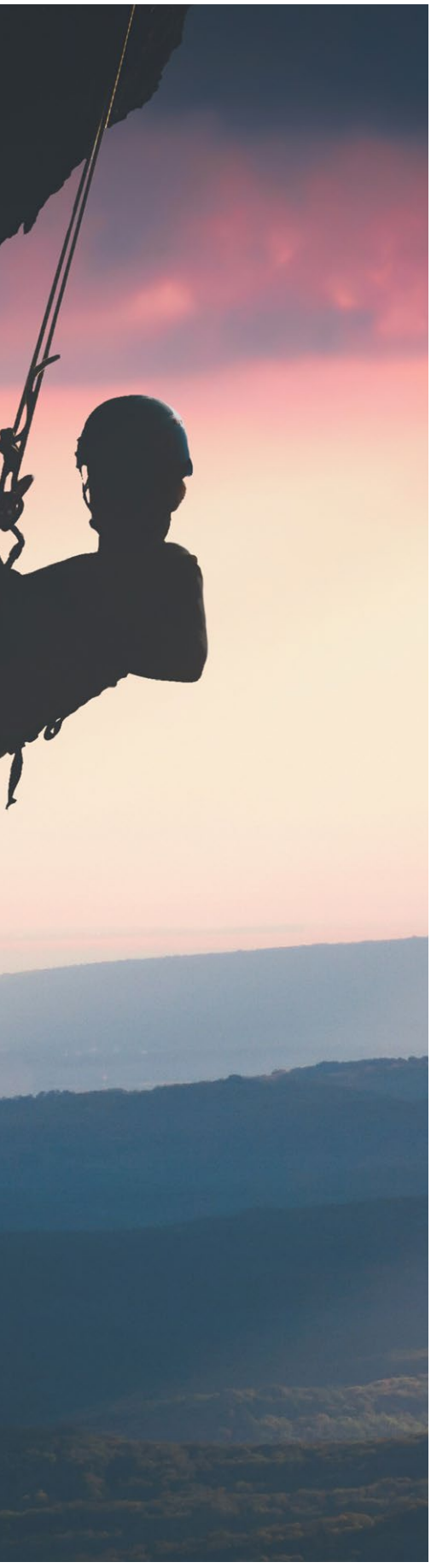
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Free Fall or Controlled Rappel:

Do You Have a Downhill Plan?



We put a lot of time into saving and investing money for retirement, but we don't spend nearly as much effort developing a strategy for withdrawing those assets once we retire. However, developing a retirement strategy is similar to planning a mountain trek — how we get down from the peak is just as important as how we scale up it.

Once you stop earning a paycheck, asset growth may slow as you begin taking income. This is fine; it's what you've been working for your whole life. But it is important that you develop a plan to prudently draw down from that mountain of assets. Without a plan, you could withdraw too much, too soon, and run out of money during retirement.

This is a big part of retirement income planning: Choosing a reliable, methodical and flexible descent route. To do so, consider four questions that may influence the path you choose.

Question No. 1

How Long Should I Expect to Live?

On average, a man who reaches age 65 can expect to live to age 84, while a woman can expect to live to 86 ½.[1] But those are statistical averages: Today, about one out of three 65-year-olds will live until at least age 90, while one out of seven will reach age 95.[2]

For a woman, the odds of outliving her husband are strong. Not only can she expect to spend more years in retirement, but she must prepare for the fact that medical and long-term care bills for her or her husband could impact her future income.

An avalanche of expenses can devastate the financial security of a surviving spouse. This is one of many reasons why it's important to consider all types of financial vehicles, including insurance options, to help ensure that a nest egg isn't drained due to long-term care expenses or the death of one spouse.



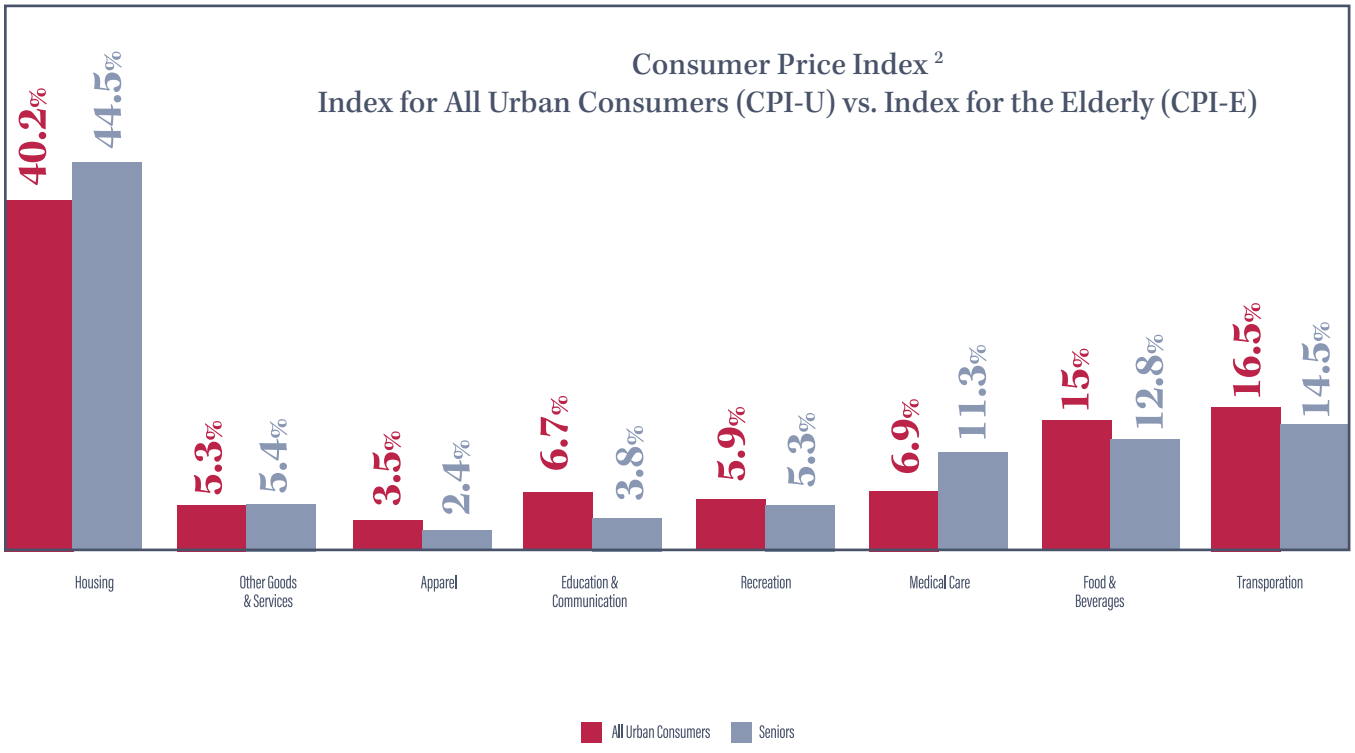
Question No. 2

How Much Will the Cost of Living Increase During My Retirement?

Inflation can have a stronger impact on retirees compared with the rest of the population. That's because retirees tend to spend a higher percentage of their household budget in categories that experience higher inflation, such as medical and long-term care.

To help quantify the difference in cost-of-living expenses, the U.S. Bureau of Labor Statistics (BLS) periodically calculates an inflation index specifically for older adults, called the Consumer Price Index for Americans 62 years of age or older (CPI-E). While the BLS has not updated the index since 2011, the accompanying chart illustrates how the relative weights for housing and medical expenses are higher for older adults, indicating that a larger percentage of retirement income is spent in these areas.[3]

To help determine long-term cost-of-living increases in retirement, consider areas in which you are likely to spend more as you age.



Question No. 3

When Should I Retire?

Obviously, the age at which you retire depends on several variables, including if you enjoy your job and want to work past traditional retirement age and whether your health or your employer gives you a choice in the matter. However, another factor that not everyone considers is what could be going on in the investment markets when you're nearing retirement.

This is important because you typically want to avoid retiring just after or during a market decline, as demonstrated in the following hindsight scenario.

In the first example (Table No. 1), Ted retired in 2007 with $300,000 hypothetically invested in the S&P 500 with a plan to make 4% annual withdrawals.

Note that in the second year of his retirement, the stock market performed poorly — substantially reducing Ted's long-term annual income.

TABLE No. 1: Retired in 2007

Annual Period Ending	S&P 500 Annual Total Return[4]	Market Value	Annual Withdrawal (4%)	New Market Value
12/31/2007	5.49%	$316,470	$12,659	$303,811
12/31/2008	-37.00%	$191,401	$7,656	$183,745
12/31/2009	26.46%	$232,364	$9,295	$223,069
12/31/2010	15.06%	$256,664	$10,267	$246,397
12/31/2011	2.11%	$251,596	$10,064	$241,532
12/31/2012	16.00%	$280,177	$11,207	$268,970
12/31/2013	32.39%	$356,090	$14,244	$341,846
12/31/2014	13.69%	$388,645	$15,546	$373,099
12/31/2015	1.38%	$378,248	$15,130	$363,118
12/31/2016	11.96%	$406,547	$16,262	$390,285
12/31/2017	21.83%	$475,484	$19,019	$456,465
12/31/2018	-4.38%	$436,472	$17,459	$419,013
12/31/2019	31.49%	$550,960	$22,038	$528,922
12/31/2020	18.40%	$626,243	$25,050	$601,193

This is a hypothetical example for illustrative purposes only. It should not be deemed a representation of past or future results and is no guarantee of return or future performance. This example does not represent any specific product or service. The S&P 500 is an American stock market index based on the market capitalization of 500 large companies having common stock listed on the NYSE, NASDAQ or the Cboe BZX Exchange. It is not possible to directly invest in an index.

When deciding when to retire, a key factor is the ability to be flexible. If market performance is in a period of decline, it may be prudent to delay retirement until the market recovers so that your portfolio does not suffer from an initial negative sequence of returns.

See how this worked for Ted in the second scenario (Table No. 2), in which he delayed retirement until 2009, with that same $300,000 hypothetically invested in the S&P 500 with a plan to make 4% annual withdrawals.

Note that by delaying retirement by just two years, Ted's portfolio experienced positive returns in the first few years — substantially increasing his annual income throughout retirement and positively impacting his long-term account value.

Bear in mind, too, that by continuing to work longer, Ted also may have increased his level of income from Social Security benefits. He may have also had more time to contribute to an employer-sponsored retirement plan and take advantage of available employer matches.

TABLE No. 2: Retired in 2009

Annual Period Ending	S&P 500 Annual Total Return[4]	Market Value	Annual Withdrawal (4%)	New Balance
12/31/2009	26.46%	$379,380	$15,175	$364,205
12/31/2010	15.06%	$419,054	$16,762	$402,292
12/31/2011	2.11%	$410,780	$16,431	$394,349
12/31/2012	16.00%	$457,445	$18,298	$439,147
12/31/2013	32.39%	$581,387	$23,255	$558,131
12/31/2014	13.69%	$634,540	$25,382	$609,158
12/31/2015	1.38%	$617,564	$24,703	$592,862
12/31/2016	11.96%	$663,768	$26,551	$637,217
12/31/2017	21.83%	$776,322	$31,053	$745,269
12/31/2018	-4.38%	$712,626	$28,505	$684,121
12/31/2019	31.49%	$899,551	$35,982	$863,569
12/31/2020	18.40%	$1,022,466	$40,899	$981,567

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Question No. 4

Where Should I Place My Assets?





The previous hypothetical scenario is presented to illustrate the degree to which negative returns at the beginning of retirement can impact the long-term income a portfolio generates. It is in no way intended to be an investment recommendation, as a substantial equity allocation may be more aggressive than appropriate for many retirees. Therefore, the next question to consider for your downhill strategy is where to allocate your assets during retirement.

As a general rule, retirees should transition some portion of their portfolio to more conservative accounts to help protect assets from market loss. Because there are a variety of circumstances that should be considered, it's best to consult with an experienced financial professional to develop a tailored distribution plan. With that said, following are some general recommendations to help you develop a financial strategy designed to last throughout retirement.

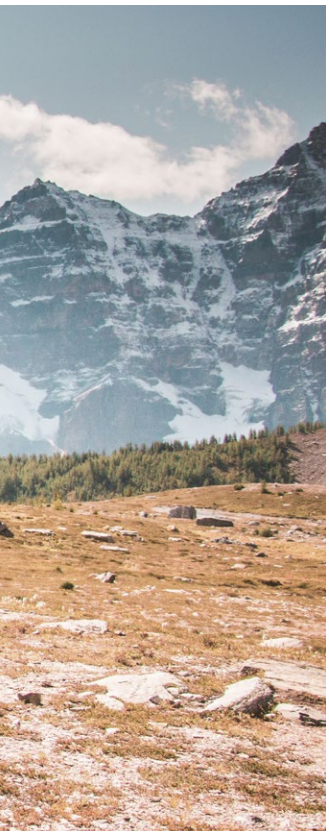


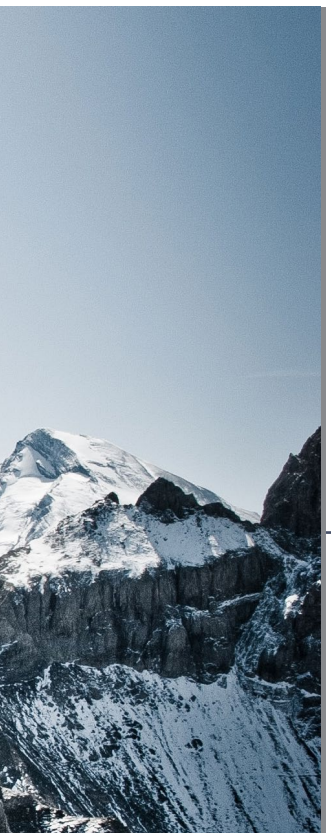


- Determine how much income your portfolio needs to provide each year to supplement Social Security benefits and any other income sources.
- Allocate a portion of assets to a liquid account to help pay for periodic expenses (such as homeowner's insurance and property taxes) as well as an emergency fund.
- Consider whether it might be appropriate to continue investing a portion of your retirement portfolio for long-term growth opportunity to help offset the impact of inflation and the chances that you live a long time.
- Diversify equity investments to help minimize risk of loss.
- Be flexible with regard to your annual withdrawal rate; you may want to save excess money withdrawn in years when the market produces higher returns and reduce your withdrawal rate in down years — using those prior savings to supplement your income.
- Consider the value of repositioning a portion of your assets to an annuity to secure a guaranteed income stream for both you and your spouse's lifetime; this would protect your income needs should the investment market experience a prolonged decline.
- Consolidate assets as much as possible for ease of management and automate required minimum distributions.









How Will You Descend?

For most people, it can take 30 years or more to accumulate a mountain of savings. Bear in mind that with today's longer life expectancy, that savings may need to last 30 years or more on the other side of the peak. Your strategy for the descent should be slow and steady — the same way you accumulated those assets.

Climbers use a rope and pulley system to control how quickly they rappel down a mountain. Likewise, at retirement you need the right tools and a predetermined route to help protect assets and draw them down in a controlled yet flexible manner, with the ability to make course changes as necessary.

Accumulating enough money for retirement is just half the journey; the other half is making that money last as long as you do. Consult with a financial professional to map out a detailed plan to help you confidently descend the mountain.

[1] Social Security. "Retirement & Survivors Benefits: Life Expectancy Calculator." https://www.ssa.gov/OACT/population/longevity.html. Accessed Sept. 27, 2021.
[2] Social Security. 2021. "When to Start Receiving Retirement Benefits." https://www.ssa.gov/pubs/EN-05-10147.pdf. Accessed Sept. 28, 2021.
[3] U.S. Bureau of Labor Statistics. March 2, 2012. "Consumer Price Index for the elderly." https://www.bls.gov/opub/ted/2012/ted_20120302.htm. Accessed Sept. 28, 2021.
[4] YCharts. "S&P 500 Annual Total Return." https://ycharts.com/indicators/sp_500_total_return_annual. Accessed Sept. 28, 2021.



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