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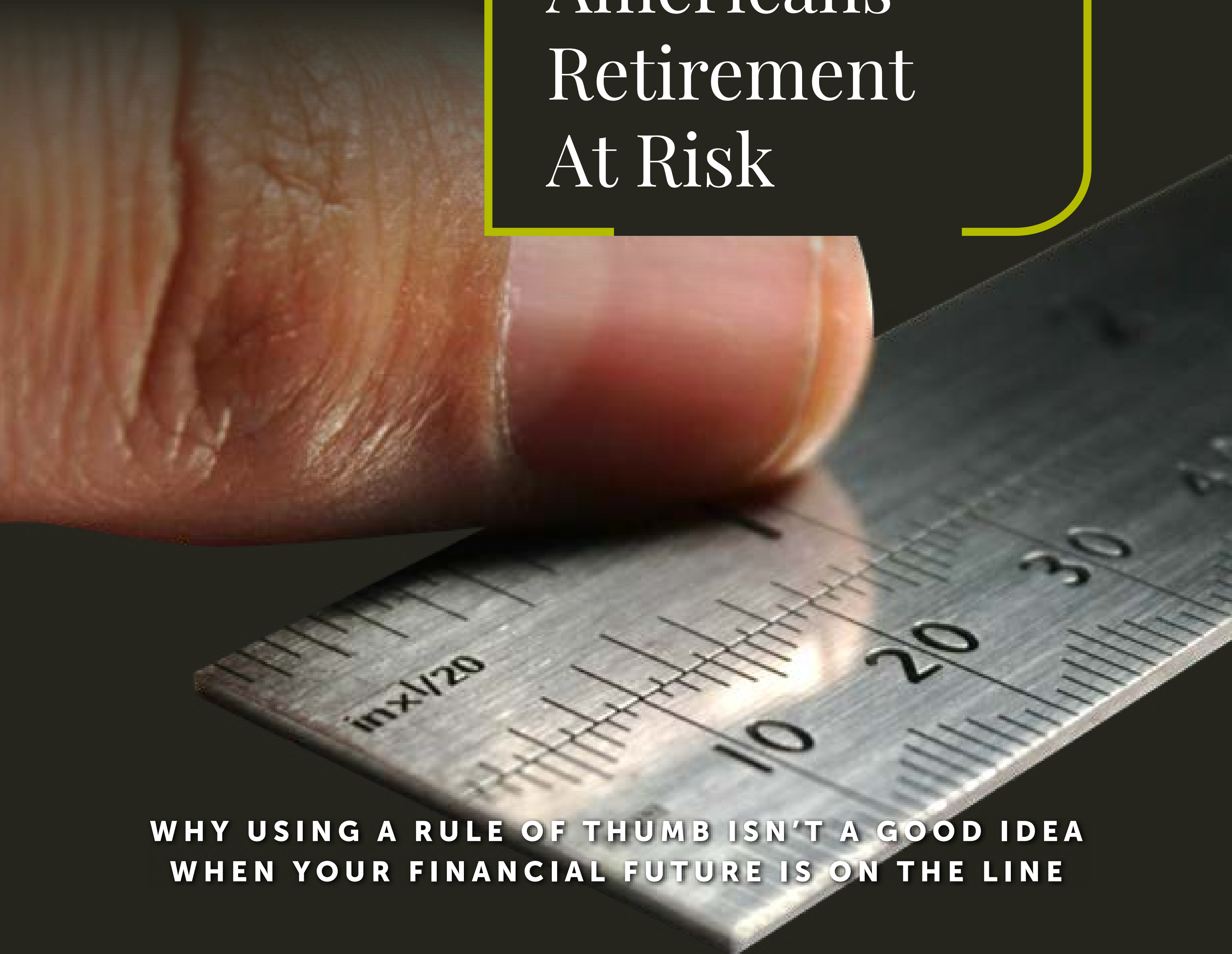
The #1 Misconception That is Putting Americans Retirement At Risk



WHY USING A RULE OF THUMB ISN'T A GOOD IDEA WHEN YOUR FINANCIAL FUTURE IS ON THE LINE

The Mistake Millions of Americans Can Avoid in Retirement

There is a question that has been weighing heavily on my mind lately. It's a question the media has clung to in regard to retirement planning and has brainwashed people into believing.

That question is:

"What's your retirement number?"

Be honest. How many times have you heard this question, seen a commercial or read an article that claims to be able to help you calculate exactly how much savings you need to retire? I know I am biased because I work inside the financial planning profession, but I see articles and videos like this pop up in mainstream media all the time.

The Problem with a "Retirement Number"

The problem with this question is that it has people believing that there is some fixed number or "goal post" amount of money that you can reach that will automatically make it "safe" for you retire. You might here people saying, "Once I reach 'x' million in my portfolio, then I'll be able to retire."

Why do people believe this? Because they have no reason not to. It really is no fault of the consumer. The internet is rife with retirement planning "hacks," "retirement calculators," and "rules of thumb" that claim to have the answer. Some sources say your retirement income should be about 80% of your final pre-retirement annual income. Others, like Fidelity, say you should aim to save at least "1x your salary by 30, 3x by 40, 6x by 50, 8x by 60, and 10x by 67."

This "numbers approach" is a dangerous way to plan for retirement. Don't get me wrong, it's great to have goals. In fact, understanding your retirement goals may be the only way to ensure you get to do all the things you want to do once you retire without running out of money. But the one thing that isn't addressed in calculating these numbers—how to turn those numbers into a recurring income stream ***that will last.*** *A rule of thumb can't possibly account for all of the nuances of YOUR retirement facts or how you may be impacted by the complexities of life in retirement.*

How will you pool income from each of your resources to make sure you outlive your assets?

You can save all the money in the world, but if you don't have a plan for how to turn that money into a predictable income that will last, then that great, big giant number means next to nothing.

How You Generate Income Will Determine Your Money's Longevity

Like most retirees, you'll likely generate your retirement income from a number of various sources including (but not limited to) social security, a pension plan (although these are becoming scarcer), your workplace 401(k), your personal IRAs, your investment portfolio, and more. But income generation in retirement isn't as simple as taking some money from here and some money from there whenever you feel like it. Your time horizon, tax strategy, and drawdown plan will determine the longevity of your wealth.

Basically, *WHEN* you pull *HOW MUCH?* from *WHERE* will affect how long that great big number (you've worked for decades to build up) will last. Here are just a few examples why.

1 SOCIAL SECURITY MAXIMIZATION

Deciding when to take social security affects your **lifetime** benefit amount.

If you elect to begin receiving benefits early, your benefits aren't just reduced until you reach Full Retirement Age (FRA), they are reduced forever. The same is true in reverse. If you elect to begin receiving benefits later, your lifetime benefit amount is higher forever.

The obvious solution seems to be to elect to take benefits later to increase your amount. But, waiting will directly impact when and how much you'll have to pull from your other resources. If (1) you're in poor health or (2) are quite a few years away from having to take RMDs, you might want to begin collecting benefits early so you can allow your invested resources in your IRAs and investment accounts to continue to grow for yourself or your heirs. But, if you continue working past age 62, a delayed benefit approach might make the most sense.

But if you are married, this approach will not maximize your benefit or protect the surviving spouse. There are 567 different Social Security claiming strategies for married couples. One will give you the highest lifetime benefit, one will give you the lowest. Leaving this up to chance could cost you hundreds of thousands of dollars in retirement.

Plus, keep in mind, how much income you are pooling from your other resources will directly affect how your social security benefits are taxed, as well.

2 TAXES

Not all retirement income is taxed equally.

Essentially, your retirement income will fall into one of three categories:

(1) Taxable (bank accounts or brokerage accounts)

(2) Tax-deferred (such as traditional IRAs or 401(k)s and other employer plans)

(3) Tax-free (from Roth IRAs or Roth employer plans)

Conventional wisdom would advocate to start depleting taxable assets before spending from tax-deferred because (1) it allows your tax-sheltered accounts to continue to grow as long as possible, and (2) it decreases the amount of taxes paid.

When you withdraw from your tax-deferred accounts, you will pay ordinary income taxes on the entire amount withdrawn rather than just capital gains tax on the appreciated amount. And since ordinary income taxes are typically higher than capital gains taxes, you would be paying a higher percentage of tax on your withdrawals.

However, the smart tax move is to take the long view and withdraw from your tax-deferred accounts at today's low tax rates. Many believe that it will not matter which party is in power because higher taxes are inevitable to pay for entitlement spending and the massive national debt, we have accumulated in three short years. Whether it is taking distributions from retirement accounts, Roth IRA conversions or taking advantage of long-term capital gains, protecting your money from higher taxes can be the smart choice.

Knowing when to take income from each of these sources will reduce your taxable income and expand the longevity of your wealth. Taxes should play a huge role in determining the most advantageous drawdown for your personal situation.

3

SEQUENCE OF RETURNS RISK AND INFLATION

Your sequence of investment returns and inflation during your early years of retirement will play a huge role in how long your wealth will last.

Essentially, one of three scenarios can happen in the first five to ten years before or after you retire:

Scenario 1) The market experiences years of negative returns which depletes your portfolio faster than anticipated and causes you to delay retirement or to live a diminished lifestyle in retirement.

Scenario 2) The market experiences years of positive returns which can compound growth in the portfolio and increase funds available for ongoing withdrawal and legacy goals.

Scenario 3) The market stays relatively flat and neither dramatically increases nor depletes the portfolio.

The problem is that the sequence of investment returns will cause your safe withdrawal rates to vary. This is something that can be overcome but will shift in the way you generate income early in retirement.

Under **Scenario 1**, retirees experiencing years of negative returns, for example, will want to protect their nest egg by relying on as many external income resources as possible. The less they can draw down from their diminished portfolio, the better. Some may even consider working part-time or staying in the workforce a few extra years to build their nest egg and keep their money invested.

The challenge then is to determine a reasonable amount of spending that can withstand a potential downturn early on, but also to position the portfolio to capture the benefits of the upswing when it does occur.

If you are fortunate enough to find yourself in **Scenario 2**, it is possible to increase the amount of withdrawals. Taxes should be a core consideration of which holdings you choose to sell to generate cash for your income.

Scenario 3 of a market that is largely flat presents unique challenges of generating income without reducing the portfolio and jeopardizing future income. One solution is to shift to a dividend income strategy where you are not selling your holdings, but rather receiving the income instead.

Looking at the Big Income Generation Picture

Unfortunately, there are millions of Americans who are relying on this "retirement number" approach for retirement success and coming up short. This is because they are missing half the picture. And since they have not faced the withdrawal choices or challenges, it is understandable that they gravitate to rules of thumb. While saving is a huge part of retirement success, the drawdown plan is just as important. After all, no one wants to return to work or have to downgrade their lifestyle after spending decades diligently saving and investing.

If you are looking for that elusive retirement number, ask yourself this: Do I know how I will create a predictable income from my investments that minimizes what I will pay in taxes and maximizes what I make and can pass on to heirs?

If not, let's chat. At Echelon Financial, we specialize in helping individuals and families in the Austin, Texas area, as well as virtually throughout the country, plan for the retirement they want, not the retirement they're stuck with. Together we can put an income generation plan in place for you that won't have you wondering why "your number" wasn't enough.

We define Retirement Success as the ability to Spend It All, Every Month because you know you have a plan you can count on.

You are already making smart retirement choices by reading this guide

We can help you clarify the next steps you can take to set yourself up for a solid retirement.

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Here's what getting a professional opinion can deliver

- Software that analyzes Social Security rules and shows you how to optimally claim Social Security to maximize income now and later
- A personalized analysis of advanced claiming strategies, including 62/70, Start-Stop-Start, Claim and Grow, and limited-opportunity loopholes like File and Suspend and Restricted Filing
- A tax-smart income plan that shows you exactly how to structure withdrawals from retirement accounts and Social Security to minimize taxes

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*To learn how to optimize your Social Security, we're offering a **FREE Retirement Assessment** to review your taxes, investments, and current financial strategies.*

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