The Goals of Retirement Income Planning

By the time retirement nears, you will have worked long and hard to finally reach this point in your lives. Whether you will be able to live the lives you want after retirement or not, however, depends on how well you have planned and invested for your long-term financial security. It also depends on the strategies you choose to distribute and preserve assets during retirement. Financial practitioners can play a critical role in the retirement planning process. By analyzing clients' needs, recommending suitable products for accumulating and distributing income, and implementing strategies to meet clients' objectives, they can help retirees achieve a comfortable retirement. In sum, financial practitioners can help retirees meet such goals as:

- **Ensuring continued growth of assets**
- **Generating enough income to last a lifetime**
- **Protecting savings while simultaneously making withdrawals from those savings**
- **Minimizing taxes**
- **Covering health care expenses**
- **Leaving a legacy for heirs and beneficiaries**

Ensuring Continued Asset Growth:

While a retiree's first thought may be to move savings into conservative investments once retirement arrives, ensuring the continued growth of assets is critically important. This is because of the always present risk of inflation. Even an inflation rate as low as 4 percent can cut a retiree's purchasing power by half in about 18 years. While some retirees may be concerned about investment risk once they retire, such risk can be managed through **diversification**. Essentially, diversification is simply another way of saying not to put all your eggs in one basket. It entails buying a mix of stocks, bonds, and investment funds that suit an investor's objectives.

Remember, different asset classes offer varying potential for growth— and different levels of risk. For example, stock funds, while offering the greatest potential for long-term growth, also tend to undergo the greatest short-term price fluctuations. Conversely, short-term investments, such as money market funds, tend to offer relatively low returns but greater price stability.

To ensure continued growth while reducing overall risk, clients can spread savings among investments with different levels and types of risk and return potential. In other words, clients should diversify assets by spreading their savings among stocks, bonds, and money market/stable value investments.

While diversification cannot assure a profit or protect against loss in a declining market, it can help guard against unfavorable fluctuations so that declines in interest income will be offset by growth in other investments—namely, stocks. It can also help ensure that assets will grow at a rate that keeps up with or exceeds inflation.

Generating Enough Income

Many retirees fear they will outlive their money. Increased longevity coupled with spiraling medical costs can jeopardize even the best planned retirement. At this point in their lives, many retirees are concerned with making assets last a lifetime.

Owning income-producing investments is critically important, especially since clients will need money to live on for 20 or more years of retirement. For example, the interest on a bond, dividends from stock, or regular income from annuitizing fixed or variable annuities can help cover day-to-day expenses. Since these types of payments are made regularly—usually semi-annually for bonds, quarterly for stocks, and monthly for annuities—clients can count on receiving a certain amount of scheduled income. Other investments, such as certificates of deposit (CDs), can also be used to provide income over a lifetime.

Protecting Savings

For many clients, accumulating a nest egg for the retirement years may seem like the most difficult part of retirement planning. However, an equally challenging task is protecting that nest egg while simultaneously withdrawing from it during retirement. To be confident that savings will last a lifetime, through both good and bad economic times, most retirees will have to limit annual withdrawal rates to a conservative amount, depending on inflation and investment returns, among other things.