



Converting Retirement Savings to Retirement Income

You've been saving diligently for years, and now it's time to think about how to convert the money in your traditional 401(k)s (or similar workplace savings plans) into retirement income. But hold on, not so fast. You may need to take a few steps first.

Evaluate your needs

If you haven't done so, estimate how much income you'll need to meet your desired lifestyle in retirement. Conventional wisdom says to plan on needing 70% to 100% of your annual pre-retirement income to meet your needs in retirement; however, your specific amount will depend on your unique circumstances. First identify your non-negotiable fixed needs - such as housing, food, and medical care - to get clarity on how much it will cost to make basic ends meet. Then identify your variable wants - including travel, leisure, and entertainment. Segregating your expenses into needs and wants will help you develop an income strategy to fund both.

Assess all sources of predictable income

Next, determine how much you might expect from sources of predictable income, such as Social Security and traditional pension plans.

Social Security: At your full retirement age (which varies from 66 to 67, depending on your year of birth), you'll be entitled to receive your full benefit. Although you can begin receiving reduced benefits as early as age 62, the longer you wait to begin (up to age 70), the more you'll receive each month. You can estimate your retirement benefit by using the calculators on the SSA website, ssa.gov. You can also sign up for a my Social Security account to view your Social Security Statement online.

Traditional pensions: If you stand to receive a traditional pension from your current or a previous employer, be sure to familiarize yourself with its features. For example, will your benefit remain steady throughout retirement or increase with inflation? Your pension will most likely be offered as either a single life or joint-and-survivor annuity. A single-life annuity provides benefits until the worker's death, while a joint-and-survivor annuity generally provides reduced benefits until the survivor's death.¹

If it looks as though your Social Security and pension income will be enough to cover your fixed needs, you may be well positioned to use your other assets to fund those extra wants. On the other hand, if

your predictable sources are not sufficient to cover your fixed needs, you'll need to think carefully about how to tap your retirement savings plan assets, as they will be a necessary component of your income.

Understand your savings plan options

A key in determining how to tap your retirement plan assets is to understand the options available to you. According to the Government Accountability Office (GAO), only about one-third of 401(k) plans offer withdrawal options, such as installment payments, systematic withdrawals, and managed payout funds.² And only about a quarter offer annuities, which are insurance contracts that provide guaranteed income for a stated amount of time (typically over a set number of years or for the life expectancy of the participant or the participant and spouse).³

Plans may allow you to leave the money alone or require you to take a lump-sum distribution. You may also choose to roll over the assets to an IRA, which might offer a variety of income and investment opportunities, including the purchase of annuity contracts. If you choose to work part-time in retirement, you may be allowed to roll your assets into the new employer's plan.

Determining the right way to tap your assets can be challenging and should take into account a number of factors. These include your tax situation, whether you have other assets you'll use for income, and your desire to leave assets to heirs. A financial professional can help you understand your options.

¹Current law requires married couples to choose a joint-and-survivor annuity unless the spouse waives those rights.

²401(k) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants," GAO Report to Congressional Requesters, August 2016

³Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company. It is important to understand that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits other than those available through the tax-deferred retirement plan.

Spring Cleaning Your Finances

The arrival of spring often signifies a time of renewal, a reminder to dust off the cobwebs and get rid of the dirt and grime that have built up throughout the winter season. And while most spring cleaning projects are likely focused on your home, you could take this time to evaluate and clean up your personal finances as well.

Examine your budget..and stick with it

A budget is the centerpiece of any good personal financial plan. Start by identifying your income and expenses. Next, add them up and compare the two totals to make sure you are spending less than you earn. If you find that your expenses outweigh your income, you'll need to make some adjustments to your budget (e.g., reduce discretionary spending).

Keep in mind that in order for your budget to work, you'll need to stick with it. And while straying from your budget from time to time is to be expected, there are some ways to help make working within your budget a bit easier:

- Make budgeting a part of your daily routine
- Build occasional rewards into your budget
- Evaluate your budget regularly and make changes if necessary
- Use budgeting software/smartphone applications

Evaluate your financial goals

Spring is also a good time to evaluate your financial goals. Take a look at the financial goals you've previously set for yourself - both short and long term. Perhaps you wanted to increase your cash reserve or invest more money toward your retirement. Did you accomplish any of your goals? If so, do you have any new goals you now want to pursue? Finally, have your personal or financial circumstances changed recently (e.g., marriage, a child, a job promotion)? If so, would any of these events warrant a reprioritization of some of your existing financial goals?

Review your investments

Now may be a good time to review your investment portfolio to ensure that it is still on target to help you achieve your financial goals. To determine whether your investments are still suitable, you might ask yourself the following questions:

- Has my investment time horizon recently changed?
- Has my tolerance for risk changed?
- Do I have an increased need for liquidity in my investments?
- Does any investment now represent too large (or too small) a part

of my portfolio?

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Try to pay off any accumulated debt

When it comes to personal finances, reducing debt should always be a priority. Whether you have debt from student loans, a mortgage, or credit cards, have a plan in place to pay down your debt load as quickly as possible. The following tips could help you manage your debt:

- Keep track of your credit card balances and be aware of interest rates and hidden fees
- Manage your payments so that you avoid late fees
- Optimize your repayments by paying off high-interest debt first
- Avoid charging more than you can pay off at the end of each billing cycle

Take a look at your credit history

Having good credit is an important part of any sound financial plan, and now is a good time to check your credit history. Review your credit report and check for any inaccuracies. You'll also want to find out whether you need to take steps to improve your credit history. To establish a good track record with creditors, make sure that you always make your monthly bill payments on time. In addition, you should try to avoid having too many credit inquiries on your report (these are made every time you apply for new credit). You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. Visit annualcreditreport.com for more information.

Assess tax planning opportunities

The return of the spring season also means that we are approaching the end of tax season. Now is also a good time to assess any tax planning opportunities for the coming year. You can use last year's tax return as a basis, then make any anticipated adjustments to your income and deductions for the coming year.

Be sure to check your withholding - especially if you owed taxes when you filed your most recent tax return or you were due a large refund. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.



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