## We can help with investment choices

Some retirees enjoy managing their own investments. Many prefer to enjoy their retirement without this burden. Those who would like a professional opinion about their portfolio management decisions may bring their questions to us. We will be pleased to help anyone on the road to financial independence.

## How long will retirement capital last?

The table below gives a rough estimate of the life of retirement resources in years, given different assumptions about initial withdrawal rate and the rate of return on investments. To account for inflation, the withdrawals are increased by 3% each year after they begin. Rates of return are assumed to be constant, but, in reality, they will vary from year to year. Also important, taxes and transaction costs are not included in the table. That's why the estimate is "rough."

For example, assume that a retiree starts with $200,000. If he or she begins with a 7% annual withdrawal, or $14,000, the capital will last for 15 years if the rate of return is 4%. If the rate of return could be boosted to 8%, the investor would get seven more years of payments, each increased by the 3% inflation factor. The table shows just how difficult it is to fund a 30-year retirement.

This example is for illustration only and does not represent any particular investment.

| | Rate of Return | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Withdrawal % | | 2% | 3% | 4% | 5% | 6% | 7% | 8% |
| | 4% | 22 | 24 | 28 | 30+ | 30+ | 30+ | 30+ |
| | 5% | 18 | 19 | 22 | 24 | 29 | 30+ | 30+ |
| | 6% | 15 | 16 | 18 | 19 | 22 | 25 | 30+ |
| | 7% | 13 | 14 | 15 | 16 | 18 | 20 | 22 |
| | 8% | 11 | 12 | 13 | 14 | 15 | 16 | 18 |

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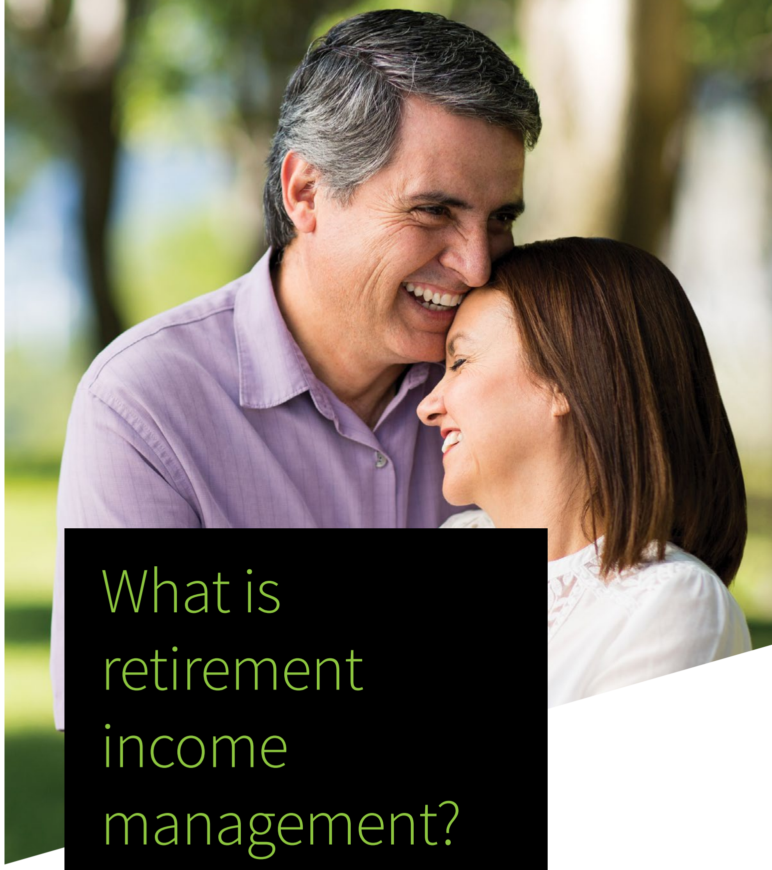

# What is retirement income management?

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# Retirement income management

When it comes to retirement, there are some things that we can control, and many more that we can't. How much to save; how to invest those savings; the retirement start date; whether to keep working in retirement—these are all controllable. Spending may be contollable also.

The economic environment that will exist at retirement cannot be contolled. Those who are planning to retire in the near term know all too well how financial market reversals can sabotage even the best of plans. A plan to use a home as a piggy bank for retirement may result in disappointment, as residential real estate remains weak in some parts of the country.

## Back to basics

There are no magic formulas for creating a secure retirement. Here is a five-step process to consider:

**Review all income sources.** Inventory all the predictable income streams that are expected during retirement—Social Security, traditional pension, lifetime annuities, rent from real estate, and portfolio income. Compile a list of all financial and real assets, including stocks, bonds, mutual funds, certificates of deposit, IRAs, 401(k) accounts, and real property.

**Project expenses.** Estimate monthly and annual expenses in retirement. Separate the expenses into the essentials—food, clothing, housing, transportation, insurance, and taxes—and the discretionary—travel, entertainment, gifts, and so on.

**Compare income to essential expenses.** This will reveal whether there will be an income gap that will have to be filled by touching principal.

Identify assets for essential and discretionary expenses. If there is a gap for meeting essential expenses, consider segregating the assets that will be liquidated as needed to fill the hole. Alternatively, consider whether a guaranteed income product, such as an immediate annuity, may help to take care of the shortfall. Once the essentials are funded fully, remaining assets may be tapped for the discretionary expenses.

**Monitor the plan annually.** Each year review the plan with a financial professional, making adjustments as needed, as retirement circumstances change.

## Five investment rules for retirees

**Focus on total return, not yield.** When living on investments, a retiree needs good income. But expectable total return—that is, current income plus capital gains or minus capital losses—is an important consideration.

For example, when "high-yield" bonds are paying much more than Treasury bonds, some of that extra yield is intended to compensate investors for potential problems or defaults, especially in case of an economic downturn. Going for maximum yield today must be balanced against the need for capital tomorrow.

**Keep an eye on inflation.** Even the yield from good, safe Treasury bonds isn't entirely "income"—except in the eyes of the Internal Revenue Service. Part of each interest payment should be considered an inflation premium. If those premiums are spent rather than being reinvested, purchasing power will shrink. For a quick barometer of the inflationary expectations of investors, look to the yield gap between Treasury Inflation-Protected Securities (TIPS) and taxable Treasury bonds. That difference is a measure of the inflation premium, as opposed to spendable income.

**Diversify.** There never was an investment article that failed to recommend diversification. Spreading risk is a fundamental way to reduce risk overall.

To diversify adequately, an investor should allocate money among various asset classes. The most basic asset classes are stocks, fixed-income investments such as bonds, and cash reserves. Retirees may also need to diversify within asset classes.

**Look at the big picture.** To control risk through strategic diversification, investors should not look just at their personal portfolios or just at their IRAs. It's the overall financial picture that matters.

A $500,000 stake in a closely held business is likely to be difficult to liquidate quickly, if it can be sold at all.

Receiving $40,000 a year from a former employer's tax-deferred pension plan is like owning $800,000 worth of bonds yielding 5%.

Unless investors look at their overall financial situation, they're unlikely to develop a properly balanced mix of assets. As a result, they're likely to run more risks than necessary—or settle for unnecessarily low returns.

**Seek tax efficiency**. Generally, investors who seek higher returns must accept greater risk. But not always. Through careful tax planning, a better life-style may be attainable without taking added risks. Some people who think that they're investing with tax efficiency really aren't. Remember, the goal is not merely to pay the least possible amount of tax. The goal is to net more after taxes.