Your Retirement Income

The transition from working and receiving a salary

to being retired and living on your savings — and any other retirement income you may have — is a major one. It is likely to be the biggest financial adjustment you'll face. How you manage your retirement assets may be a key factor in determining the lifestyle you're able to enjoy.

Reviewing Your Income Sources

During your retirement years, you may need to rely on your investments for a large portion of your income. You'll want to have a plan to coordinate your investments with your other sources of income.

Social Security.

Although they provide a regular source of income, Social Security benefits probably won't be enough to cover all your expenses. According to the Social Security Administration, the average monthly Social Security retirement benefit is about $1,300.

Pension benefits.

If you're entitled to a pension from an employer's defined benefit pension plan, you have a second source of steady income. These days, however, fewer and fewer employers offer this type of plan.

Other employer-sponsored plans.

If you have an account in a 401(k), profit sharing, 403(b), or other employer-sponsored retirement plan, you will be able to access your vested account balance when you retire. The question is, "What will you do with the money?"

You may be able to leave your money in the plan after you retire and withdraw it as you need it. That way, you can continue to benefit from potential tax-deferred growth. Alternatively, your plan might offer installment payment options and/or the ability to annuitize your benefits.

Rolling over all or a portion of your plan account to an individual retirement account (IRA) is another option you'll want to consider. A rollover keeps your money tax deferred and may provide you with more investment choices than your current plan. If you decide to roll over a distribution, consider a direct trustee-to-trustee transfer to avoid the 20% federal income-tax withholding that would otherwise apply to the distribution.

You can also receive a distribution of your vested account balance as a lump-sum payment. Income taxes generally will be due on the entire distribution except for any amounts representing after-tax contributions or qualified Roth distributions. A 10% early distribution penalty also may apply. Once you've taken the distribution, you'll be able to manage the net proceeds as you wish.

Commercial annuity.*

If you purchase an annuity from an insurance company, you'll receive regular distributions in return for the premium(s) and other fees and charges you pay. You can choose to receive annuity payments for a specific period of time or for an indefinite period, such as your lifetime or the combined lifetimes of you and your beneficiary. An immediate annuity allows you to turn a lump sum into a retirement income stream.

Continued earnings.

Whether you continue at the same job, start a business, or work part-time in a new field, your earnings can be another source of income and may limit the amount you'll need to withdraw from your retirement savings.

** An annuity may impose charges, including but not limited to surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, and feature charges that can reduce the value of your account and the return on your investment. You will have to pay federal income tax on any earnings you withdraw from the annuity during retirement or before. Payments and guarantees are subject to the claims-paying ability of the issuing insurance company, and the underlying investment options are subject to market risk and may lose value.*

Managing Your Income

With life expectancies on the increase, you may need retirement income for 25 or 30 years, or even longer. You'll want to "draw down" your assets in the most efficient manner possible. The withdrawal sequence that is right for you will depend on your income-tax situation, your investments, and your estate plan. However, here are some very general guidelines.

Taxable accounts.

Conventional wisdom suggests withdrawing money from taxable accounts first. The main rationale for tapping taxable accounts first is that it gives the assets in your tax-deferred retirement accounts more time to benefit from potential tax-deferred growth.

Tax-deferred accounts.

Distributions from traditional IRAs, 401(k)s, and other tax-deferred retirement plans are generally subject to income taxes. Ideally, you will be in a lower marginal tax bracket when you start withdrawing money from these accounts. At a certain point in time (generally by April 1 in the year following the year you reach age 70½), you must start taking annual "required minimum distributions" (RMDs) from these accounts.

Roth IRAs.

Because Roth IRAs offer potentially tax-free earnings, you may want to keep these accounts intact for as long as possible. The RMD rules do not apply to Roth IRAs during the account owner's lifetime.

Making Your Assets Last

The possibility of outliving your assets may be a very real concern. How long will your retirement assets last? That depends on a number of factors, including the amounts you spend, your life span, and the return on your investments.

How your assets are invested will be a key component of your financial plan during your retirement. Instead of confining your investments to fixed income securities, you may wish to consider keeping a portion of your assets in investments that offer the potential for growth, such as stocks and stock mutual funds.**

*** Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money. You should consider a mutual fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.*

HOW LONG RETIREMENT ASSETS WILL LAST

% Withdrawn Annually	Number of Years Before Assets Are Gone							
2	40	50	—	—	—	—	—	—
3	28	33	39	52	—	—	—	—
4	22	25	28	33	42	—	—	—
5	18	20	22	24	29	36	54	—
6	15	16	18	19	22	25	31	44
7	13	14	15	16	18	20	22	27
8	11	12	13	14	15	16	18	20
9	10	11	11	12	13	14	15	16
10	9	10	10	10	11	12	13	14
	2%	3%	4%	5%	6%	7%	8%	9%
	Average Annual Return on Remaining Assets							

The withdrawal percentages shown refer to a percentage of the initial value of the retirement assets. The table assumes payments are increased 3% annually and are taken at the beginning of each year. Actual earnings would vary from year to year. Source: DST

Your financial advisor can help you develop an appropriate asset allocation for your investment portfolio and a withdrawal plan that suits your personal circumstances.

A combination of prudent planning and wise investment and tax strategies can help you successfully manage your retirement income — and ensure that your retirement goals will be met.

Contact us today at watrust.com.

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