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The secret to planning a successful retirement

Preparing Your Nest Egg

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Modern financial planning does a great job of preparing people for the journey of retirement, but it does a poor job of actually planning the journey.

It is essential to focus on the delivery of income throughout retirement because so many factors affect our ability to achieve our desired goal. These factors include:

- Market volatility
- Inflation
- Tax rates
- Unforeseen events

Modern planning puts a great deal of emphasis on the need to save and how to invest. It focuses on some "number" that needs to be achieved, as if merely accomplishing that goal itself would assure the income one might need for the balance of their life after "retirement." One of the greatest developments of the last 20 years is that people routinely live to be 100 or older. So if you retire at 65, your "number" needs to deliver income for 35 or more years.

Given the timeframe and these influencing factors, it is essential to plan for the distribution of income from several sources and to create balance and flexibility in the plan in order to achieve optimal results.

As we look at our income in any given year during retirement, it is easy to see that there might be multiple sources:

- A pension plan
- Social Security
- 401(k) distribution
- Investment income
- Rental income

Once these likely sources are identified, it is possible to determine how much income will come from any one source in any year. For example, if market returns are high, we might plan to take larger distributions from that account during that year. Also, if we have a guaranteed source of income, such as a pension or Social Security, we might choose a strategy to maximize their value over time due to the guarantees.

> *It's key to create a model with multiple strategies that can be activated over time in order to maximize income*

It is important to recognize the security that a guaranteed monthly deposit in your account can provide, because people tend to tolerate risk and volatility poorly as they age.

These guarantees provide a great deal of stability and should be relied on to provide 60 to 70 percent of the early retirement income. This will cover most basic living needs and create a stable base on which to build.

These projections are best viewed in a model that not only recognizes the ever-increasing income needed after the effects of inflation but also accounts for the source in any given year.

These sources also need to be capable of delivering higher amounts of income in order to offset increasing costs.

When such a model is used, it becomes apparent which sources should be tapped first, and which should be allowed to "mature."

Modeling also makes it possible to identify potential new strategies that can be added to the plan to create more flexibility and balance.

The secret to successful planning is to create a model with multiple strategies that can be activated over time in order to maximize income, reduce risk, minimize taxes, offset the savings of inflation and create a "shock absorber" for unforeseen events like negative markets, loss of principal, medical expenses and long-term illnesses.

Discovery of this secret will allow you to be much better prepared for the journey of your retirement – one which may last nearly as long as your working years. NHBR

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