CAPITAL A WEALTH MANAGEMENT SHARES SMART TIPS FOR RETIREMENT PLANNING

By Brandon Domenick

Retirement is one of the most empowering and exciting times for retirees. You finally get to kick your feet up and enjoy all the hard work you put in. At Capital A Wealth Management, we believe retirees should spend time enjoying themselves, finally doing what they didn't get to do during their working years.

Most retirees feel anxious, afraid, and worried about the next market downturn. Our team understands this, and our process is built around the principles that protect retirement savings from market downturns. First, we believe that when you decide to retire, you only go back to work because you want to, not because you must. Therefore, it is crucial to have a plan before retirement begins.

Because life expectancy is much longer these days, many retirees need to keep pace with inflation. This may require keeping a portion of their portfolio invested in equities or stocks, which can ultimately create turmoil as the market takes a downturn. In addition, it may cause you to take income from a depreciating asset. This can make it harder to recover than you would have during your working years when using your investments for income wasn't necessary.

The sequence of return risk could significantly impact your retirement plans and is very important to consider throughout the first few years of retirement. Taking distributions or income from stock holdings in a down market can hurt. First, you'll have to sell more shares to generate the income you need. Second, you have fewer shares left over after selling that can benefit from the next favorable market. Both cause retirees to reduce their income in a down market or put them at high risk of draining their investment accounts. Retirement should be the best years of your life, and for most, lowering their income isn't in the cards.

At Capital A, we like to use the "bucket system" to help protect people from imperfect markets and ensure their lifestyle isn't altered once they retire. This system includes three buckets in which retirement savings should be divided: the safe, income, and growth. To break this down, let's imagine a couple—John and Jane—who with their current lifestyle, will have an income need of $6,000 per month in retirement. However, based on their retirement savings of $1,000,000, their income is only about $4,000 per month. This means their income gap for what they need versus what they will receive is $2,000 a month. However, with a proper plan and strategies, there are ways to fill this income gap.

One strategy would be to move money into the "income bucket." The income bucket consists of protection products, such as fixed indexed annuities, that can provide us with a predictable and sustainable income stream for as long as we live.

Additionally, these products are not dependent on market returns, which helps avoid the need to change our lifestyle or lower our standard of living in retirement. But, of course, everyone's situation is different.

For example, we found that John and Jane needed to move $400,000 of their savings to the income bucket to cover their income gap. The remaining $600,000 went into the "growth bucket" for inflation protection and long-term growth. This strategy gave John and Jane the flexibility to avoid relying on market returns and let their portfolio (growth bucket) recover during those down markets.

Another essential factor to consider is taxes in retirement. Ultimately, it's not about what you make; it's about what you keep after taxes. We believe taxes will most likely be higher in the future. If you agree, Roth conversions may be a great tool for you, especially in a lower tax bracket. Think of your deferred tax accounts (likes IRA's, 401k's, 403 b's) as being in a partnership with the IRS. Every dollar you take out is taxable at your highest tax rate.

Essentially, the government owns a piece of your retirement accounts. So, it may make sense to pay some taxes now, move these accounts to a Roth IRA where they are tax-free moving forward, and shield yourself from higher tax rates down the road. Some advantages of Roth IRAs include tax-free growth, tax-free distributions or income, and your beneficiaries inherit these dollars tax-free. Additionally, there are no required minimum distributions, so it's your choice at age 72 whether you want to take money out or leave it in the Roth to continue growing.

The key to having a successful retirement is to customize a retirement strategy tailored to your household's situation. This strategy must also consider health, longevity (of both spouses), retirement income needs, current investments, taxes, and leaving an efficient legacy. With a solid plan in place, you'll undoubtedly have less worry and more time to enjoy your golden years.