Strategies and Investments to Generate Income Now

By Robert Powell Apr 2, 2018 7:15 PM EDT   TheStreet.com

Retirees looking to generate current income in this interest-rate environment should think first about where their investments are located, and the type of tax that the income generates.

For example, it's prudent to own municipal bonds in non-retirement (taxable) accounts, but not so great to own REITS, preferred stocks, corporate bonds, and high-yield bonds in the very same account, says Ian Weinberg, a certified financial planner and CEO of Family Wealth & Pension Management. Those investments, he says, should be owned in the retiree's IRAs and other qualified accounts.

"Remember, any income taken from the retirement accounts will usually be taxed at their top marginal ordinary income tax brackets," says Weinberg.

By contrast, under current federal income tax law, interest income earned from investing in many types of municipal bonds is not subject to federal income taxes.

"So, the tax environment is of primary importance relative to the interest-rate discussion," says Weinberg. "That said, it doesn't look like the anticipated rate hikes will be a huge issue for the bond market."

Munis, he says, look like a good deal again, and their supply of issuance is decreasing due to new tax laws reducing refunding by municipalities.

Other Strategies and Tactics

Rita Cheng, a certified financial planner and CEO of Blue Ocean Global Wealth says there is a tradeoff between income and wealth. In other words, if retirees give up access and control of, say, $100,000 or $250,000, they can purchase an immediate annuity. "This can give them income," she says.

Her options and strategies to consider for those seeking current income:

1. We know about dollar-cost averaging during the accumulation phase. An option could be a systematic payout for a mutual fund or investment portfolio.
2. Consider an immediate annuity for a shorter term, such as five or 10 years. You can coordinate this purchase with Social Security planning. "You can use non-qualified dollars to be even more tax efficient," she says. Read this Prudential report on maximizing Social Security benefits.
3. Income doesn't have just come from bonds. Income can come from dividend-paying stocks, mutual funds or ETFs, limited partnerships, and the like, Cheng says.
4. Finally, says Cheng, incorporating housing wealth may also be an important part of the conversation. "Not so much to purchase a product but to reduce expenses in retirement," she says.

Floating-Rate Bond Funds

Even though interest rates have started to climb back up, income investors are still far from benefiting as much as they would like, says Chris Chen, a certified financial planner with Insight Financial Strategists.

What might retirees consider? "The instruments that we would consider including in a portfolio include bank loans and preferred stocks," says Chen.

And others, including Allan Katz, a certified financial planner with Comprehensive Wealth Management Group, says retirees might consider REITs and floating-rate bond funds.

A floating rate fund invests in bonds and debt instruments whose interest payments fluctuate with an underlying interest rate level, as opposed to paying fixed-rate income, according to Investopedia.