

Why Is an Income Plan Necessary?



So, just how important might income planning be for your retirement success? Here are a few practical reasons to think over:

When you are still working, a rock-solid financial plan will do wonders for helping you accumulate money for retirement. This strategy will laser-focus on growth and accumulation as top goals. With a financial advisor's help, you could stay on track with your plan and gradually build your savings for later years.

But things change as you near retirement. This period is called the 'retirement red zone' for a reason. It's a time when new planning is needed. Your financial plan will need to change gears, in some ways, in its focus from growth to retirement income.

This can be tricky in some cases, as today we face different challenges in retirement than those before us did. Longer living is one such issue now.

It's a very real concern for many retirees, as one study by Allianz Life found. In the study, six in 10 retirees ranked running out of money while they are still living as a greater fear than death itself.

Just like the plan for growing your money during your career, an income plan can help you maximize your lifetime cash-flow. In turn, you can better enjoy the hard-earned fruits of your lifetime of work.

Many years of hard work brought you to this point. Now it's time for your money to work and let you enjoy a comfortable, lasting lifestyle.

Longer Retirements

Thanks to expanding life expectancies, people may spend one-third of their lives in retirement. Advances in medicine and healthcare have caused people's lifespans to stretch out into their eighties and beyond. It has made longer the time that people spend in retirement. Now, your financial plan has to be ready for this increased timespan. There are more years of life to account for in making sure your money lasts as long as you need it.

Changing Income Sources

Chances are retirement will bring some changes to your income. By stepping back from a full-time career, you will also leave behind the predictable earned income or paycheck that you took home every two weeks. This income source will need to be replaced. There are several possible ways that this can be done, depending on what you have saved, your financial risk tolerance, and your timeline for your goals.

No Strategy for Retirement Spending

Without an income plan, retirement spending can easily go off-track. Some retirees may be tempted to overspend and set themselves up at greater risk of outliving their retirement assets.

Others who have a "saver" mentality may be tempted to underspend, therefore living a compromised lifestyle.

Leave Risk Management to Chance

Don't have an income plan? Then you aren't in the best seat to manage all of the risk possibilities. And Those risks multiply with each additional year of retirement living. Your financial plan should ready for a bevy of risks, including market risk, healthcare risk, inflation risk, and long-term care risk. A retirement income plan not only helps you contextualize these risks and manage them. It also gives you wiggle-room to make adjustments should changing needs call for it.

How Can an Income Plan Help Your Retirement?

A rock-solid income plan will help you enjoy a sustainable income in light of all these potential pitfalls. Overall, an effective plan will cover:

Guard Against Longevity Risk

What is a safe balance of money that can be withdrawn from your portfolio without raising the risk of outliving your money? The old rule of 4% withdrawals per year may be a little optimistic in today's low-interest rate environment. Many planners are now telling their clients that a 3% withdrawal rate is a safer bet.

You may want to explore a variety of investments and guaranteed insurance products that can help you maintain a certain level of spending, but also keep your portfolio going for the long haul.

Buffer Against Low Interest Rates

What portfolio allocation strategy will you have in order to meet your long-term income needs and other goals? Today's low-interest rate environment may force you to look past bonds and CDs to other offerings. Equity income and immediate annuities are a few options that you might consider in order to cover your income needs.

Help with Timing for Social Security

What is the best age for you to claim Social Security? If applicable, for your spouse? It will probably be wise for you to consult an expert in this matter. Your full retirement age will be an important factor. What's more, how you choose to file for benefits can mean a difference of thousands of dollars in your pocket. Don't leave this decision to chance.

Pay Reliable Permanent Income

What other sources of guaranteed income do you have for covering monthly living expenses? These costs are the baseline of your retirement lifestyle, so getting them right is crucial.

An annuity can come in handy here. Apart from other guaranteed benefits, they can pay a guaranteed stream of income for life, regardless of how the markets perform. There are several types of annuities from which you can choose.

Cover Long-Term Income Gaps

What other sources of income do you have, besides Social Security, from your portfolio? Do you have any income gaps to cover?

This can be a difficult question to answer when interest rates are as low as they are now. Compare your future expected spending to your retirement income sources. Are there any gaps between your expenses and how much income you expect to receive?

To be on the safe side, financial professionals recommend having projections for these numbers for 30 years or greater. Retirement can be a long-time part of your life. Because of that, this prudent approach will help you and your advisor spot any income gaps over the long haul. An effective retirement income plan will look at the long term and identify where these gaps might arise.

Better Offset Your Risk

What amount of risk are you comfortable with in your portfolio -- and how much risk in your portfolio can you take? This can also be difficult questions to answer. The types of investments that you may want to use may simply not be paying enough to live on right now. A retirement income plan can help you determine what assets will help you manage risks to your retirement income.

Depending on the timing of when you create your income plan, you may have to take on more risk than you are comfortable with for a while. It pays off to start your retirement planning as early as possible.

Set Practical Goals for Retirement Spending

What "fail-safes" do you have set up so that you don't underspend or overspend your assets in retirement? Having a good, realistic budget is one of your best lines of defense when it comes to spending. Many resources are available online or obtainable from your financial professional that will let you create a living, workable budget.

The upside to this? This tool helps you track all of your spending and see where your money is going.

How You Can Beat Back Other Income Shortfalls

As you can see, having a solid income plan is crucial in order for you to ensure a secure retirement. After all, your income plan serves many purposes.

Your plan is a roadmap for setting goals. It's also a financial GPS, giving direction and laying the groundwork in the pursuit of your objectives and, ultimately, a comfortable retirement.

Not only that, a retirement income plan provides a benchmark. You can see where you are, how much progress you have made, and how far you have yet to go. If you need to delay your retirement and save more, your plan can give you more confidence by knowing this ahead of time.

Working longer means you aren't tapping your assets for income, and you can delay taking Social Security, thus increasing your benefit. It will also reduce the number of years over which you will have to spread your income.

For some, a retirement income plan could even be life-changing. It may make the difference between solvency and bankruptcy when you retire, depending upon your circumstances.

Plan for Your Future Income Security

Consult with your Wealth Management Strategies financial advisor today (714) 912-4906 about creating an income plan that will work for you and cover your expenses during retirement.