# Michelle Brennan Hall, on Income Layering

Michelle Brennan Hall

*Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Michelle Brennan Hall is president of Brennan Wealth Advisors in Dallas.* Income layering is a retirement planning approach that attempts to pair a client's income needs at different stages of their life with corresponding assets from their portfolio. Beginning with one or more sources of income, the plan continually adds new, supplementary layers of income from additional assets as retirement progresses.

The advantage to income layering over more traditional planning approaches is its potential to provide clients with rising income to help combat inflation. That doesn't mean the approach is magically creating more money in their accounts. But by incrementally increasing the number of assets they're drawing on for income, clients can also potentially increase their withdrawal rates to keep up with inflation and meet their evolving budgetary needs.

And unlike typical income approaches that generate cash for retirees by liquidating their assets, one after the other, the focus is preserving principal. That's critical because once capital is gone, it's gone. No one wants to change their lifestyle or go back to work because the growth assumptions of their remaining assets did not play out in the markets, while other assets were liquidated during the early stages of retirement.

By maintaining that principal base, the client is not only providing for income for themselves, they're preserving a financial asset for inheritance. Take for example a husband and wife who retire at age 60. He has Social Security income, and a pension, and she has a Social Security benefit of her own. They invested in non-qualified accounts, municipal bonds, IRAs, Roth IRAs and a 401(k). Using income layering you could structure a thoughtful distribution of those assets that is designed to preserve capital and combat inflation.

Here's how it works: For the couple's first two years of retirement, income would be sourced from tax-favorable investments and savings like managed accounts, Roth IRAs and municipal-bond holdings. These non-qualified assets are typically used as a "bridge" to an age when other sources of predictable income become available.

At 62 you would add the husband's Social Security income and between ages 65 and 70, his pension and the wife's Social Security would be added. By drawing on these particular assets earlier in retirement, you allow for a client's qualified portfolio assets--including IRAs and 401(k)s--to continue enjoying tax-deferred growth.

The next income layer begins in the couple's early 70s when they start receiving required minimum distributions from those qualified sources. After age 75, the clients can utilize Roth IRAs for additional income or for lump-sum distributions.

For many of our clients, an income layering approach gives them confidence in, and helps them form more realistic expectations about, their retirement. Because they can see how every asset they've accumulated is going to be put to work in service of their goals, they tend to approach retirement more thoughtfully. They understand what their income is going to be and they're better able to structure their lives accordingly.

The goal of this income layering approach is to provide individuals with confidence and a more realistic expectation about their retirement. Seeing that every asset accumulated is going to be put to work in service of their goals may allow individuals to approach retirement more thoughtfully.

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