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Your Retirement Planning Newsletter

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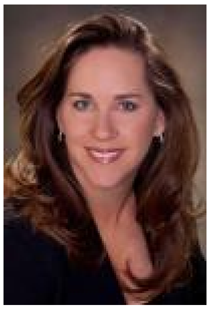

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Take Steps to Keep Your Retirement Income Stream Flowing

After years of accumulating assets, the time will come for you to begin drawing on those assets to provide income throughout retirement. Before that day arrives, be sure to consider some steps to assist you in keeping your retirement income stream flowing.

Set a Sustainable Withdrawal Rate

As tax-advantaged retirement savings vehicles such as 401(k)s and IRAs have proliferated, so too has the trend toward self-funding of retirement. In the future, the share of personal assets required to fund retirement is sure to grow, which makes knowing how much you can withdraw from your investment accounts each year -- and still maintain a healthy cushion against uncertain market and personal circumstances -- a necessity to any retirement income plan.

A number of factors will influence your choice of withdrawal rates. These include your longevity, the potential impact of inflation on your assets, and the variability of investment returns. Therefore, when crafting a retirement asset allocation, a key question will be how much to allocate to stocks.[1] Certainly you will want to maintain enough growth potential to protect against inflation, yet you will also need to be wary of being too exposed to stock market gyrations. Generally speaking, those who have planned well and amassed enough assets to comfortably finance retirement may be in a better position to include more stocks in their portfolios than those who enter retirement with less.

Developing a Withdrawal Rate

The goal of your withdrawal plan is to crack your nest egg in such a way as to provide a reliable stream of income for as long as you live. The question is, "How much can I plan to withdraw each year without depleting my financial resources?" Academic studies suggest a yearly withdrawal rate of 3% to 4% of your portfolio's value based on an asset allocation of 60% stocks and 40% cash and fixed-income investments.[2] By staying within this withdrawal range you potentially should be able to maintain your portfolio's value in real, inflation-adjusted terms for an extended period of years, although past performance is no guarantee of future results.

Tax Rules Affecting Retirement Account Withdrawals

IRA and other retirement plan owners may be subject to a 10% income tax penalty if withdrawals begin before age 59½. Also, mandatory withdrawals, called "required minimum distributions" or "RMDs," must begin by age 70½. Failure to take full RMDs may result in a penalty tax of 50% of the required distribution amount.

Consult with your tax and/or financial advisor for additional help analyzing your specific situation. You should also revisit your personal withdrawal strategy each year, as your situation and tax laws may change.

[1]*Asset allocation does not assure a profit or protect against a loss. Investing in stocks involves risks, including loss of principal.*

[2]*This example is hypothetical and not intended as investment advice. Your results will vary.*

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