Retirement Researcher

Retirement Income Planning, Part 1

by **Wade Pfau, Ph.D., CFA**

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Your financial life can be divided into two phases: accumulation and distribution. The accumulation phase is when you are earning money, building up your savings in preparation for retirement. This phase begins when you start earning an income and ends when you retire. The distribution phase comes after you retire and you start living on the savings you compiled during the accumulation phase.

The two phases are like climbing a mountain. On the way up – accumulation – your sole focus is reaching the top (the point of retirement). Once you're standing on the peak, your focus shifts to safely reaching the bottom – the distribution phase.

Reaching the top of a mountain is worth celebrating, but if you don't know how to get back down, you could be in big trouble.

It's important to note that retirement is not a one-time event. It encompasses the entire distribution phase.

Click here to download Wade's free ebook outlining the unique risks of retirement and how to tackle them.

Our team at Retirement Researcher is focused on helping people make it back down the mountain – the distribution phase in retirement. It can be the most trying, financially vulnerable time of many people's lives due to the absence of relative stability a regular paycheck provided.

Click here to download Wade's ebook summarizing the unique risks retirees face

The following eight guidelines serve as a kind of retirement planning philosophy for us in helping people make it safely down the mountain of retirement income:

1. Play the long game

General life expectancy numbers are useful if you're an actuary, but you shouldn't base your retirement income plan on them. A retirement income plan should be based on planning to *live*, not planning to *die*. A long life is expensive to support, so it should take precedence over death planning.

Short-term expediencies often come at a greater long-term cost, so we encourage people to practice patience when making spending decisions. That doesn't necessarily mean you have to sacrifice every short-term satisfaction. A long-term focus provides efficiencies that can often support a higher sustained standard of living as long as you live.

Still, planning to live longer means spending less. Developing a plan that incorporates efficiencies that will not be realized until later can allow more spending today in anticipation of those efficiencies. Not taking such long-term, efficiency-improving actions often leads to a permanently reduced standard of living.

Remember, half of the population lives beyond their life expectancy, so either you or your spouse will likely need your distributions to last longer than "expected."

2. Don't leave money on the table

The holy grail of retirement income planning is finding strategies that enhance retirement efficiency – strategies that simultaneously allow you to spend more *and*leave behind a legacy you can be proud of, in a way that other strategies may not. The definition of efficiency varies from person to person as it depends on how long you will live.

As mentioned in the first point, a number of strategies can enhance efficiency over the long term (but not necessarily the short term) with more spending and legacy. One simple example for tax planning in retirement is taking IRA distributions or harvesting capital gains to generate enough income to fill the 0 percent marginal tax bracket.

3. Set reasonable expectations for portfolio returns

One of the most common and damaging mistakes investors make is expecting their portfolio returns to match the historical average. While an average is a nice, clean reflection of how a portfolio performed over a long period, real returns fall below the average half of the time.

Lately, we have seen historically low interest rates, which means at least bond returns will be lower in the foreseeable future. Current bond returns don't have a large impact on people who are far from retirement, but they carry important implications for people who have already retired.

At the very least, you should dismiss any retirement projection based on 8 or 12 percent returns, as the reality is likely much less when we account for portfolio volatility, inflation, a desire to develop a plan that will work more than half the time, and today's low interest rates.

Next time, we'll discuss how to use high-return plans, manage retirement risks, and how you should view retirement income tools.