RETIREMENT INCOME CASE STUDIES

Practical Examples of Turning Retirement Savings Into Lifetime Paychecks

Social Security	Guaranteed Income	Investment Withdrawals
$2,500	**$3,500**	**$1,000**

Total Monthly Inc **$7,000**

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ZION FINANCIAL RESEARCH

RETIREMENT MONEY CASE STUDY.

The Portfolio-Heavy Retiree

Client Profile

Mark and Susan

Ages 66 and 64

Mark and Susan had a 38-year career as an engineer and a part-time mother, respectively.

They are strict savers and have accumulated most of their wealth by taking workplace retirement schemes as well as long-term investments.

They did not have a pension.

Their investment portfolio was nearly all they relied on as retirement benefits.

Financial Snapshot

Investment portfolio: $1,120,000

Savings: $170,000

Roth IRA: $80,000

Intended Social Security: 67:

$48,000 combined annual income

Estimated expenditure on retirement:

$92,000 annually

The Problem

Similar to most pensioners, Mark thought that the conventional withdrawal rule would be successful.

The recommended advice was to withdraw approximately 4 percent per year.

That would produce roughly:

$44,800 per year from the portfolio.

Their estimated retirement earnings were as follows, when added to the Social Security income:

Social Security: $48,000

Portfolio withdrawals: $44,800

Total projected income: $92,800

On paper, this was enough to meet their expenditure.

Nonetheless, this plan brought two significant issues.

To begin with, most of their revenues were based on the performance of the market.

Second, losses in the market in the early years would have a permanent impact on their future retirement.

It is referred to as sequence-of-returns risk.

When the markets are down at an early age during retirement, and the withdrawals are being made, the portfolio can run out at a higher rate than anticipated.

In our meeting, Mark summarized the issue.

I do not have to be concerned with growth so much. I am only interested in whether the revenue will be there.

The Planning Insight

The value of a portfolio is not the only thing about retirement.

It is based on the reliability of income.

A large number of retirees are able to obtain a part of their income from predictable sources of lifetime income and leave the rest of the portfolio to be invested to grow.

This strategy will make the company less dependent on withdrawals in the market when it is volatile.

The Strategy

Having analyzed their spending requirements, we concentrated on obtaining the part of their income that was to be used to meet the basic expenses.

Their minimum living expenses, such as housing, utilities, food, insurance, and medical care, amounted to approximately $52,000 per annum.

Most of that requirement was covered by Social Security.

Mark set aside the money as a structured lifetime income strategy of $420,000 of their portfolio to reinforce their income base.

This generated another assured source of income of about:

$26,000 annually for life

Projected Outcome

Their source of income now had the following appearance:

Social Security: $48,000

Guaranteed income strategy: $26,000

Total fixed unrestricted earnings: 74000 a year.

This was against most of the vital living costs.

The rest of the portfolio of approximately 700,000 may be left to spend at will, travel, and long-term growth.

Why This Matters

Mark changed his views after having secured their basic income.

They could now invest in their portfolio with a long-term orientation as opposed to being concerned with market fluctuations that might lead to their inability to meet their basic financial obligations.

It was no longer purely to safeguard a portfolio balance.

This became the preservation of their way of life.

The Social Security Gap

Client Profile

David and Karen

Ages 67 and 65

David was a retired employee in a company that deals with logistics, and Karen was a dental hygienist.

Their thoughts were about retirement, and there was one question.

How can we convert our savings into paychecks?

Financial Snapshot

Traditional IRA: $780,000

Brokerage account: $240,000

Savings: $90,000

Social Security income:

$54,000 annually

Estimated expenditure on retirement:

$88,000 annually

The Problem

They had a big percentage of their living expenses covered by their social security benefits.

But there was still a gap.

Annual spending: $88,000

Social Security income: $54,000

Income gap: $34,000 per year

To start with, David was to draw out this amount directly from the portfolio.

Nonetheless, such a course of action is confusing.

The withdrawals would be largely dependent on the market conditions.

This would increase the rate at which retirement funds are being depleted in the case of a prolonged market downturn.

The Planning Insight

Rather than fully depending on portfolio withdrawals, we questioned whether it would be sensible to convert some of their savings into a certain lifetime income.

This was aimed at bridging their income with a stable income as opposed to the sole use of investment withdrawals.

The Strategy

David invested his retirement funds in a lifetime income plan of $350,000.

This gave about:

Guaranteed lifetime income of $23,000 a year.

With the addition of the Social Security income, their income structure was as follows:

Social Security: $54,000

Guaranteed income: $23,000

Total stable income: $77,000

Their current income requirements can easily be fulfilled with the help of small withdrawals from the portfolio.

Projected Outcome

By taking a share in their retirement earnings:

The constant income met their basic needs in a large proportion.

They could put their remaining portfolio under less intense pressure to generate immediate withdrawals.

This strategy minimized the effects of the market volatility on their retirement income.

Why This Matters

Karen related the effect merely.

It was like knowing the amount of money we will get to spend every year instead of asking ourselves how much we could afford not to spend.

Foreseeable revenue generates transparency.

And transparency enables retirees to retire with a higher level of comfort.

The Bond Replacement Strategy.

Client Profile

Robert

Age 70

Robert took decades to create a diversified portfolio of retirement savings, which had a high bond share.

He wanted to be safe and have a secure income.

However, with time, he was frustrated with the returns he was getting on his bond portfolio.

Financial Snapshot

Total portfolio: $980,000

Portfolio allocation:

Stocks: $490,000

Bonds: $350,000

Cash: $140,000

Social Security income:

$36,000 annually

Estimated spending:

$72,000 annually

The Problem

Robert was depending on bonds as a mode of generating income.

But his bond portfolio was returning an approximate of:

$7,000-$9,000 annually in income.

This revenue was not stable, and it was exposed to changes in interest rates.

Meanwhile, he was reluctant to become more exposed to equity due to volatility in the market.

The Planning Insight

Most retirees invest sizable proportions of their portfolios in bonds in their endeavors to develop stability.

Nevertheless, not every bond is geared towards creating a stable lifetime income.

Rather, we considered whether we could reposition some part of the bond allocation to an income strategy with its primary purpose of retirement income.

The Strategy

Robert invested the amount of $300,000 of his bond portfolio in a structured lifetime income plan.

The effect of this was about:

$20,000 per year in lifetime income.

This revenue substituted for most of the bond revenue that he was used to.

Projected Outcome

Before the strategy:

Bond income: about 8000 a year.

After repositioning:

Earned Income: about 20,000 in a year.

The rest of the portfolio that Robert had was still diversified, stocks and bonds, but no longer had to support his full retirement.

Why This Matters

Income stability is frequently the goal of the bonds in the retirement portfolios.

However, in cases (common these days) where bonds cannot yield sufficient Income, retirees can enjoy these strategies, which are intended to generate retirement checks.

The Married couple that requires Confidence.

Client Profile

Tom and Linda

Ages 68 and 67

Tom was working as a small business owner.

Linda was employed in healthcare administration.

They were not poor, but they were concerned with money usage.

Financial Snapshot

Traditional IRA: $1,050,000

Brokerage account: $210,000

Savings: $130,000

Social Security income:

$62,000 annually

Projected retirement expenditure:

$95,000 annually

The Problem

Tom and Linda were not good at making decisions, even though their assets seemed adequate.

They kept on questioning themselves:

"How much can we safely spend?"

Their earnings were based on the withdrawals from the portfolios and market performance.

This uncertainty made their expenditure much lower than what they could actually afford.

The Planning Insight

The paradox that is being faced by many retirees is what is known as the retirement spending paradox.

Retirees can end up spending less than they should spend, even when there is enough money in their hands, because of the uncertainty surrounding their income.

Confidence to retire can be enhanced greatly by developing foreseeable sources of Income.

The Strategy

Tom and Linda invested their retirement fund of $480,000 in a lifetime income plan.

This produced about:

$30,000 annually in lifetime income.

Projected Outcome

Their new income pattern was:

Social Security: $62,000

Guaranteed Income: $30,000

Total reliable Income: 92, 000 a year.

They could now afford to use the rest of their investment funds to have discretion and grow.

Why This Matters

Linda was able to explain the change best.

Since retirement, we now feel at ease in the retirement that we worked so hard to get.

The stability of incomes goes beyond asset protection.

It creates confidence.

The Longevity Protection Strategy.

Client Profile

James

Age 69

James was very healthy, and he had a family where many of the relatives lived till the 90s.

His major issue was straightforward.

"I don't want to run out of money."

Financial Snapshot

Traditional IRA: $1,350,000

Brokerage account: $260,000

Savings: $140,000

Social Security income:

$41,000 annually

Projected retirement expenditure:

$84,000 annually

The Problem

James ' retirement scheme was solely based on the withdrawals from the portfolio.

His assets seemed adequate with a normal life expectancy, but less so with a full life span in the mid-90s.

The issue of longevity risk is one of the least considered challenges of retirement planning.

An extended life span adds to the years that assets would be needed to sustain Income.

The Planning Insight

We did not even bother trying to find out precisely how much time retirement was going to take, but rather, we considered the means of having a share of James' income last as long as he lived.

The Strategy

James invested a sum of 450,000 towards a lifelong income plan aimed at giving him a lifetime income.

The effect of this was about:

28,000 a year of guaranteed Income.

Projected Outcome

Combined Income:

Social Security: $41,000

Guaranteed lifetime income: $28,000

Total stable Income: $69,000

This catered to most of his basic needs.

His remaining portfolio was now to be invested at his discretion, with inflation protection.

Why This Matters

Longevity risk is unique.

Existing in empty pockets is an issue that can be experienced only once.

James ensured that he had a fixed amount of his retirement income to invest in a lifelong investment, and this eliminated the risk of not knowing when his retirement was going to end.