

# Develop a Retirement Income Plan



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**“Once you retire, the consistency of a regular paycheck in a specific amount may be replaced by an income stream that can be generated from various sources.”**

Once you retire, the consistency of a regular paycheck in a specific amount may be replaced by an income stream that can be generated from various sources. How this stream is created will be an integral component of your overall financial plan. Your Legend Advisor will work with you to align your resources with your objectives, and to develop suitable distribution strategies that satisfy specific financial needs, such as:

- providing an income throughout your retirement years
- providing for the income needs of a spouse
- maintaining the tax-deferred status of your retirement savings as long as possible
- minimizing taxes and avoiding penalties
- leaving a legacy

In conjunction with your financial advisor, the expertise of a qualified tax professional can be essential to the development of a successful retirement income strategy.

### *Distribution Options*

Retiring employees who have participated in an employer-sponsored retirement account have several payout options. Your choices may include:

- Annuitization (a variable annuity, or a fixed annuity that provides set payments for life)
- Periodic or systematic withdrawals with amounts and frequencies based on your retirement income needs
- Partial distributions (including the option to distribute to a money market account with check writing privileges)

While annuities are designed to provide an income that can continue as long as either you or your spouse is alive, the trade-offs required can make them a less desirable option for the bulk of your savings. If you annuitize, you forfeit control of your retirement assets in exchange for a series of payments. Essentially, your principal is converted to an income stream, and is no longer accessible. This is usually a one-time decision that cannot be revoked.

Fixed annuities guarantee a pre-determined income per month, but over time, inflation will erode a fixed income's purchasing power. Furthermore, the integrity and ultimate guarantee of any fixed payment derived from an annuity investment or fixed account is tied directly to the insurance firm that underwrites it. This means that if the underwriter fails, your annuity payments may be in jeopardy. Variable annuities may keep ahead of inflation, but their performance will fluctuate with the financial markets. Variable annuities also charge mortality and expense fees to pay for life insurance provisions, which results in less money accruing in your account.

Many retirees choose to access their retirement accounts via periodic or systematic withdrawals or partial distributions because of the flexibility these options provide. A periodic or systematic withdrawal plan can be structured to make regular, automatic withdrawals with amounts and frequencies that are based on your retirement income needs. Partial distributions may be made in any amount at any time, as funds are needed to cover your living expenses. These types of withdrawals can be directed to a money market account offering check writing privileges. Only the amount distributed from the accounts is taxed as income, while the balance remains invested and maintains its tax-deferred status.

### **Securities offered through Legend Equities Corporation, member NASD and SIPC.**

*Restrictions do apply, namely: if you are over age 70 ½, you must withdraw enough each year to cover the mandated required minimum distribution, and if you are under age 59 ½, a 10% premature distribution penalty may be imposed. The principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.*

# Develop a Retirement Income Plan

## Your Withdrawal Strategy

The method you use to turn your assets into retirement income will depend on a variety of factors including your age, your goals and how your funds are invested. In devising a suitable withdrawal strategy, consider the following:

- Limiting yearly withdrawals to about 4% – 6%
- Withdrawing principal and reinvesting earnings or taking earnings in cash and accessing principal as needed
- Minimizing taxes
- The implications of early retirement
- Avoiding penalties on retirement account distributions
- Required minimum distributions

## Withdrawal Rate Risk

Many retirees underestimate the amount they can withdraw from their retirement savings each year. Withdrawing too much can expose you to the risk of outliving your assets. Experts advise withdrawing just 4% to 6% of your retirement nest egg each year to increase the chances that your funds will last throughout a long retirement. You may be able to withdraw more—or less—each year depending on your life expectancy, how your money is invested and how the financial markets perform. But no matter which withdrawal rate you choose, you should expect to increase that amount over time to compensate for inflation.

## Turning Assets into Income

Withdrawals can be made directly from your principal while your dividends, interest, capital gains and/or distributions are reinvested. Conversely, you can take these monies in cash, accessing your principal on an as needed basis. The method you use to turn your assets into retirement income will depend on how your funds are invested. Most likely, your portfolio will include both growth and income components. With this strategy, a portion of your assets will be earmarked for current income while the remainder is positioned for future growth.

## Minimizing Taxes

Drawing from your taxable accounts first makes sense because most of those funds have already been taxed. This way, the assets in your retirement accounts can maintain their tax-deferred status for a longer period of time, perhaps until minimum distributions are required at age 70½. And even though capital gains are taxable, they are usually taxed at a lower rate than ordinary income.

## The Implications of Early Retirement

Assets held in a retirement account such as a §403(b), §401(k), §457 or IRA are governed by a host of rules and

regulations that limit contributions and/or accessibility in exchange for tax-deferral. Your age, employment status and other factors will influence your ability to tap these funds. Since taxes are due immediately on the amounts withdrawn, many retirees try to maintain the tax-deferred status of their retirement assets as long as possible. Those who wish to access their funds sooner may face penalties if they are under age 59½.

Furthermore, younger retirees must contend with longevity risk. While retiring early is an achievable goal, you should plan to develop an income stream with the potential to last 25 to 30 years, or more.

## Avoiding Penalties on Retirement Account Distributions

A 10% premature distribution penalty normally applies to distributions taken from a retirement account (other than a §457) before attaining age 59½. However, certain “§72(t)” distributions are exempt from this penalty.

To qualify for penalty-free distributions, §403(b), §401(k) or §457 participants must attain age 55 or more in the year they retire. If the participant is younger, the §72(t) penalty can be waived for distributions that are part of a series of substantially equal periodic payments which are based on the life expectancy of the participant or the joint life expectancy of the participant and a designated beneficiary. Participants in a §403(b), §457 or qualified plan are eligible only after separation from service, while IRA owners may benefit at any time. However, once a stream of §72(t) distributions has begun, it must continue for five years or until the participant reaches age 59½, whichever is longer. Withdrawal amounts may be stopped or changed once the mandatory distribution period passes.

## Required Minimum Distributions

In most cases, minimum distributions are required from your tax-advantaged retirement accounts at age 70½. If you neglect to take a required minimum distribution (RMD), the IRS will assess a 50% penalty on the amount you should have withdrawn. Roth IRAs are one exception because contributions are made with after tax dollars. Also, if you contributed to a §403(b) plan prior to 1986, you may be able to postpone withdrawals on a portion of your accumulated assets until age 75.

RMD amounts are generally calculated by dividing the market value of your account as of 12/31 of the previous year by your life expectancy factor as published in the IRS' Uniform Life Table. If your spouse is more than ten years younger than you and is your sole beneficiary, you can use the true Joint Life Expectancy factor for your RMD calculations. This will yield a smaller RMD, enabling more of your funds to continue to be treated as tax-deferred. These tables recalculate life expectancies each year so you will not outlive your retirement assets if you withdraw the minimums.