Four Steps to Managing Your Cash Flow in Retirement

Brought to you by Andrew Seaborg in conjunction with Lincoln Financial Advisors

Retirement planning is a lifelong process, evolving from a focus on saving and investing to wealth preservation that sustains your cash flow in retirement. To confidently manage your retirement funds, it's important to understand not only how much you have, but how much you will need. Then you can determine how to fill in the potential gap. Keep in mind that creating a retirement plan is not a one-time event: It requires periodic adjustment in order to help ensure that your money is available when you need it – for as long as you need it. The following four steps can help you get started.

Step 1: Review Your Expenses and Create a Budget
To determine what your retirement expenses will be, start with taking a closer look at your current lifestyle. If you can get a handle on your current expenses, it's easier to project what you will need to live on over the next 30 or 35 years. Based on the most recent year, estimate your annual expenses for the following categories:

- Housing, food and clothing
- Transportation
- Medical and long-term care
- Debt and income taxes
- Charity
- Emergency cash
- Funds for short-term goals (leisure, home improvements, vacations, new car, etc.)

Once you have a figure in place, you can make additions and subtractions based on any changes you anticipate in your retirement lifestyle. For example, your costs may change if you expect to move to a retirement community or pay off debts before retiring.

Step 2: Calculate Your Retirement Income
If you have a balanced portfolio, a 4% annual withdrawal from your funds during retirement – a reasonable rate – can improve the chances that you will not outlive your money. After several years, you may wish to re-evaluate your withdrawal rate and increase it for inflation. Ask your financial planner to help you calculate the value of your investments and the annual retirement income they can provide. Don't forget to factor in Social Security and any pension income, which can supplement your 4% withdrawal.

Step 3: Make Budget Adjustments
If you expect your expenses will exceed your income, now is the time to identify ways to reduce your costs – by downsizing your home, for example. You can also decide to work longer to bolster your savings, which may include working part time as a way to phase into retirement. Additionally, purchasing an annuity may provide another stream of income. By reviewing your retirement budget and portfolio annually, you can respond to any changes in market conditions, inflation or tax laws. You can also make appropriate adjustments related to life events that impact your resources and lifestyle, such as marriage, divorce, the death of a spouse or partner, or illness.

Your financial planner may be able to use a computer model to run scenarios based on your personal data to measure the probable impact of any decision on your long-term financial needs. The model can tell you how paying off your mortgage or using the money to invest longer, or contributing to a grandchild's educational savings plan versus providing a gift later, may affect your retirement cash flow over the course of years.

Step 4: Consider Consolidating Retirement Plans
Once you leave your employer, moving funds from an employer-sponsored retirement plan to an Individual Retirement Account (IRA) is a way to provide you with greater flexibility and control over those funds. Generally, an IRA provides you with greater investment options to diversify your portfolio along with continued tax-deferred growth potential.

Consolidating your retirement account may also simplify the calculation of your required minimum distribution (RMD) amount, which the IRS requires you to take annually from your IRA, 401(k), and other qualified plans beginning at age 70½. If you fail to withdraw the RMD, the IRS imposes a 50% tax penalty on the amount that should have been taken. (Roth accounts are not affected by these rules because the taxes were prepaid.)

It is very important that you feel confident about managing your retirement income to last a lifetime. Your financial planner can help you determine the appropriate course of action for drawing income from your assets and sustaining growth potential within your portfolio toward helping meet your long-term goals.