**Retirement Planning Tutorial**

**Real World Personal Finance Software**

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This text is to help you understand the technical details of the retirement plan that follows.

Some people don't like the word "retirement," so the retirement plan is titled *Financial Independence Analysis.* Other terms are used that mean pretty much the same thing, such as going into an alternate lifestyle, stopping work full time, freedom from an occupational schedule, etc. It will just be referred to as "retirement" from now on because it's the industry's standard way of saying things.

This retirement plan is basically a year-by-year comparison of estimated money being spent versus estimated money being generated from all sources. You tell us, by filling out our *Retirement Fact Finder* questionnaire, how much you'd like to spend annually. This is then compared to how much money your investments, and other sources of income, can generate.

If you spend less than your investments are making, your balance of capital will increase over time. This means you can usually spend more than originally thought, thereby being able to increase your standard of living, having your nest egg last longer, passing more to heirs, and/or gifting more than projected.

If you spend more money than your investments are making, then you'll be spending investment principal (selling shares), and your balance of capital will decline. If the decline is serious enough, you will run out of money before you pass away. This is called *superannuitization*, and is the most common scenario we want to help you avoid.

Both scenarios (not spending enough and running out of money) are usually undesirable, so this plan will help find the middle ground you can be comfortable with. This middle ground is always changing, so it's important to run these retirement reports at least annually.

Your "current retirement plan" (or "old" or "before" plan) just forecasts what your financial future probably would have looked like if you didn't hire us, and just kept going as is. An old saying in the financial planning business is, "If you keep going down the road you're on, you'll probably end up where you're headed."

The "proposed retirement plan" (AKA your "new" or "after" or "recommended" plan) is a forecast of what your financial future would probably look like after implementing all of our retirement planning recommendations.

Other important uses for the retirement plan are to show you:

🞄 When you can retire, and the effects of waiting, or retiring a few years earlier.

🞄 How much you can spend every year, assuming taxes and various cost of living inflation rates.

🞄 How much more you'll need to save / invest if you're short in reaching your retirement goals.

🞄 What average investment rate of return is needed to reach your retirement goals. This sets the tone for how much risk you can, or need to take, to reach your goals. If you can reach your goals with a portfolio of bonds paying 4%, then you would sleep very well knowing you are not taking much risk.

🞄 How major expenditures (e.g., college for children, nursing home stays, expensive vacations, vehicle and other replacement costs, etc.) in addition to your basic income goal, may affect your retirement plans over time.

🞄 How home downsizing, inheritances, or other significant future cash flows may affect your plans.

🞄 The effects of IRS qualified plan required minimum distributions that you may have to start taking at age 70½. If you have a goal of keeping a certain amount of money left over when you're a certain age, this may make a difference.

🞄 An estimate of how much money you'll have at the end of every year.

🞄 How investment portfolio construction and rebalancing may affect your plans over time.

**About Precision**

Since we are using economic assumptions and computers to estimate the future, we need to point out some limitations of the retirement plan:

🞄 No one knows what the future holds. Most of what financial advisors do and say are just educated guesses. Economics is both a dismal and an inexact science (it's more of an art form really).

🞄 Nobody knows what your expenses will actually be.

🞄 Inflation, taxes, and investment rates of return can't be predicted nor guaranteed, and won't be constant.

🞄 Computer generated numbers are just extrapolations, not predictions.

🞄 Social Security and Medicare generic health insurance benefits may be changed.

🞄 Anything that's not taken into account in the retirement plan may affect the results drastically.

🞄 Anything could happen to other people in your life, greatly increasing your expenses.

In short, we're just guessing with current economic guesstimates using the best financial tools available.

The main goal in retirement planning is to spot trends based on various data input. If the trend is bad, then it's best to know as soon as possible rather than to find out after you commit to retirement (AKA quitting your day job and/or annuitizing an annuity or starting the payout of a defined benefit pension plan).

Because of the "time value of money," the sooner you can get an idea of what your retirement may look like, the better your chances are of avoiding unpleasant surprises will be. This is because the more time you have to prepare, and/or change course, the better the chances are of reaching your retirement goals. This is due mostly to the fact that one's ability, and willingness, to work to earn money usually significantly diminishes over time due to failing health, pain, or lack of cognitive abilities.

**Income Goals, Taxes, Inflation, and Additional Funding Needs**

Let's start with the first page of the report.

*Annual Income Goals* are what you (and your spouse) wrote on the questionnaire where it asked how much money you want to spend. Or, if a detailed budget and cash flow report was generated, then your retirement income goals would just be whatever your annual forecasted total living expenses are projected to be. This is the bulk of your normal living expenses when you retire.

They are called goals because they're in the future and not everyone can spend as much money as they want to. These income goal amounts are after taxes, so it's net, spendable money.

If there is only one income goal, or if both you and your spouse retire in the same year, then both of your goals are combined and the text under *Annual Income Goals* will say *Combined Goal.* If you and your spouse retire in different years, then there will be two separate income goals (if you want and listed two).

These amounts increase with inflation at the rate(s) you also specified on the questionnaire. If you didn't specify any inflation rates, we most likely did it for you because we feel there will always be some cost of living inflation. These rates can be found on the top right of the first page of the plan where it says *Income Goal Inflation.* This number is the average over the next 30 years.

Note that if the plan used the results of the Family Budget and Cash Flow Projector, then these income goals and inflation rates could be totally, or partially, overridden. In this case, inflation rates used may be different.

*Retirement ages* are when you told us you wanted to retire. Husband and wife do not have to retire in the same year. "Retirement" starts in the year your income goals start to be funded by investment assets and sources other than earned income. You can still earn money after you are retired, and these numbers are found on another page. Most projections in the plan start in the first year someone retires.

The two notes under the *Income Goal Inflation* section are the tax rates used. The first tax rate is our estimate of your average tax bracket. Because we are taking all of your income into account, marginal rates are not used. Average (AKA the effective tax rate) tax rates are always lower than marginal rates. Nobody pays marginal tax rates on all of their income. So if you see marginal rates used in other retirement plans, it's very incorrect, and should not be used. Average tax rates are found just by dividing the total amount of tax due by your gross incomes (not your Adjusted Gross Incomes).

The other tax rate shown is the amount of your Social Security we estimate will be included in your taxable income. Currently, most people collecting Social Security pay ordinary income tax on 50% of their Social Security if they have other retirement income over a certain amount.

The *Average Percent of Annual Income Goal Being Met* number in the middle of the page is important. You want 100% of your income needs to be met every year. If there are years when you won’t be getting as much money as you need, then this will lower the average number. The year-by-year numbers are on the *Annual Summary Numbers* page. There’s no magic number that can be viewed as good or bad, but anything less than 90% means your retirement probably won’t go as well as planned.

The bottom section shows how much more needs to be saved / invested to reach your retirement goals. If the lump sum and monthly need numbers are both zero, then the plan is saying that you can probably reach your goals given the data that was input. Please note that this is before any "stress testing" performed by the Monte Carlo simulation (more about this can be found in the disclaimer section of your financial plan). If you need to accumulate more money to reach your goals, then there will be numbers displaying here.

The left number shows how much more you would need to invest all at once today to reach your goals. The number in the middle shows how much you would need to invest every month until your retirement (if you would rather invest monthly than lump sum).

Please note that these numbers are mutually exclusive - doing one or the other will be sufficient to reach your goals. In other words, you don't need to do both lump sum and the monthly investing. Both the lump sum and monthly numbers will grow to be about the same value by the year you retire. Both of these amounts will grow at the assumed discount of return shown at the right. The lower this discount rate, the more money is needed, and vice versa.

About the *Basic Retirement Planning Information* table(s): Hopefully this basic information is self-explanatory.

*Life expectancy* was calculated using standard IRS unisex mortality tables, and is just a guess based on your current age and the age the average American passes. *Inputted life expectancy* is what we input into the retirement software. People are living longer and longer, so a very high age was input just to account for the “best-case scenario” (which is actually the worst-case scenario from your capital’s point of view, because every year longer you live, the more it needs to generate income for your living expenses).

*Number of Years of Retirement with Sufficient Capital*: You need this number to be the same as the number of years of your retirement. If it’s less, then the difference is how many years you did not have enough money to pay for your living expenses.

The next two lines show the percentage of years that you’ll have enough money to pay your expenses. You need these to display 100% for your retirement plan to be a success.

The next two lines show how many years of your retirement are projected to be in a situation where you have run out of money. So you need these to be zero for your retirement plan to be a success.

The next two lines show the same thing as above, but in percentages. So you need them to be 0% too.

**Asset and Non-Asset Income Summary**

The top section lists all of your assets (retirement investment accounts) input into the program. The asset's name appears first. If neither you nor your spouse's name appears, then it's assumed to be a jointly-owned investment (you both own it together). Asset is just the commonly-used term for an investment (account).

The next column to the right shows each investment's current value. In the next column, if there is an age here other than your current age, then this means the investment does not come into play until you reach that age. For example, if you expect a $50,000 inheritance at age 70 (and you're 50 now), then the program ignores that asset until you are 70. In this case, the inputted growth rate becomes a discount rate. This means that if you have a $10,000 asset coming into the picture in five years, and its discount rate is 10%, then it's only worth $6,209 today. So roughly $6,200 will be the amount displayed here.

The *Percentage of Assets* column just shows what percent that one asset is, compared to the total shown.

The next five columns apply only to an investment when you plan to add more money to it. For example, if you have an IRA that you contribute $2,000 annually to, then $2,000 will show up under the *Annual Additions to Asset* column. Then if the rate of growth shown next is 10%, the value of this IRA at the end of the next year will be $2,200.

The next two columns show the years you plan to make the contributions to the retirement investment account. The program doesn't go back in time, so it will just account for the current year and future years.

The column, *Inflation Rate of Annual Contributions,* shows increases in contributions over time. For example, if you have a company 401(k) plan, and you put x% of your income into it, and your income goes up 5% every year, then this 5% will show up here because your contributions will also increase by 5% annually (unless you're maxed out already).

The program will account for any amount and/or frequency of additions to investments. In other words, you can put $1,000 per year in this year, $2,000 the next, none the next, and so on. So whatever you told us to model, we did that, because the retirement software we use is one of the few that is able to do that.

The next column, *Age when Payout Begins*, shows your age when each investment starts to pay out income needed to fund your retirement income goals. Investment assets normally start to pay you when you retire, but you can start them at any year after retirement (but not before).

Using the inheritance example above, if you get it when you're 70, you can let it grow until you're 80, and then start taking retirement income from it. Just about anything that happens in the real world can be modeled, if you tell us in that level of detail. Income from investments paying out before the age of the first person's retirement is ignored (in stand-alone retirement plans).

The next column is more complex. This shows which of the ten most commonly-used methods was used to model paying retirement income from each investment account. There are various restrictions on how some investment assets can pay out income for you to spend. We chose one of the ten methods based on the type of investment it is, and other factors in your life.

### The Ten Retirement Investment Asset Payout Methods

All of the cell reference numbers in this section refer to the ten asset sheets of the retirement planner.

**1) Lump Sum**: 100% of the investment asset’s balance is paid out as a lump sum at any year specified (whether retired or not, or way past the age retirement has already started). You can still use the manual withdrawal column to withdraw partial amounts before the 100% lump sum year. You can also control how much is taxed, and tax rates can be different in these two payout phases (manual withdrawals and then the final lump sum).

**2) Yield Only:** The biggest use for this retirement withdrawal method is when you want to keep principal intact forever, but it also has more uses. For example, to account for CDs or individual bonds in the Real World, you can account for just the income, and then use the manual withdrawal column to lump sum the maturity proceeds. You can also simulate any number of individual CDs or bonds maturing in different years by using the withdrawal manual override column in conjunction with the rate of return manual override column. You can also account for some maturing while others are reinvested.

Another practical use of this withdrawal method is modeling investments like bond mutual funds. You can assume a total return of 7%, taking out 6% interest income, and having the principal grow by some small amount (1% in this case). Or slowly deplete it by 1% by taking out 7% and growing it at 6%.

Taxes on municipal bonds, or mutual funds, can be simulated correctly too by setting the amount taxable input field (cell A10) to 0%. If there are capital gains to pay when it's sold or matured, enter that tax inclusion rate into cell A11. Or the tax rate on any mix of state and federally taxable scenarios can be modeled too.

With this payout option, you'll have control over every bond, CD, or fixed-income strategy where a fixed or variable percentage of the investment's balance is paid out as retirement income.

**3) Inflation Adjusted Income Stream Generator:** This unique retirement withdrawal method automatically answers the question, "What's the most retirement withdrawal I can take out of this investment account every year, account for taxes, have it keep up with inflation, and have it last until I'm 100 years old?"

You'd just input the year it starts to pay out, a life expectancy age, a rate of return, a tax rate, and it automatically figures out the rest. You can still use the manual income withdrawal column before payout starts.

This retirement income distribution method is also known as calculating a systematic withdrawal plan, or in IRS language, "substantially equal periodic payments over life expectancy."

**4) IRS Age 70½ Minimum Required Distributions (MRD, or AKA MDIB and RMD):** The retirement program will estimate the annual minimum distribution amounts that need to be withdrawn from traditional IRAs and 401(k)s. You can still use the income withdrawal manual override column at any age, so you can tap into it more when needed, and then have it go back to paying just the required minimum distributions.

**5) Specific Annual Withdrawal Amounts:** This withdrawal method disables the other nine payout methods, so only amounts input into the withdrawal manual override column inject income into the retirement plan.

In short, you’d manually input how much of an investment's balance you want to withdraw, and to be spent as retirement income, in every year. Then the retirement calculator forces that much net income into the picture. If there's a surplus over what's needed, then it is added back to active Flexible assets (discussed next).

**6) Flexible Asset:** This payment method pays out retirement income in a manner that does not have a structured payout option (methods 1 - 4, or 7 - 10). It’s an easy way to just let it figure everything out based on what's needed every year.

A Flexible Asset is different because it frees the retirement account to pay out retirement income needs that remain after all non-asset income from the Summing & Input sheet, and assets with structured payout methods, have paid out. It basically funds whatever is needed to reach annual income goals after everything else has paid out (e.g., Social Security, pensions, earned income, and all non-flexible asset buckets).

If there is more than one Flexible Asset, then withdrawals are calculated on a pro-rata basis, according to size. For example, if there are only four investment buckets with values of $500,000, $250,000, $150,000, and $100,000, and the income need was $100,000 in that year; then $50,000 would come out of the $500k fund, $25,000 out of the $250k fund, $15,000 out of the $150k, and $10,000 out of the $100k fund. So all investments will run out at the same time.

Flexible Assets also accept income surpluses when there's a forced surplus (there’s more money coming in than being spent). These surpluses get added back to their market value, so it can grow until needed in the future.

**7) Single Life Fixed Annuity:** This method of paying out retirement income trades in the investment's market value for a permanent income stream. This income stream most resembles a single life fixed annuity (or old-style defined benefit pension plan).

It wipes out the investment's market value when it starts to pay out, it pays until death, and cannot be altered once it begins. It basically allows you to simulate what will happen in the real world if you were to annuitize a fixed-rate annuity, without an inflation rider benefit. If you want to model a fixed annuity with an inflation rider, then you can use one of the income generators discussed below.

**8) Inherited IRA or IRS Rule 72(t) Governing Pre-Age-59½ Tax-Qualified Plan Distributions:** To sum this long story up, if you have a tax-qualified plan (e.g., Traditional IRA), the IRS has rules to make sure people repay the taxes that they saved during the accumulation phase.

There are also rules saying that if you take money out of an IRA before you turn age 59½, then you have to pay a 10% premature distribution tax (in addition to ordinary income tax). In 2002, the IRS realized the error of its ways, and made exceptions to these rules in section 72 of the code. Part “t” makes exceptions to getting these premature distributions, because many people are already retired at ages well before 59. Also, people that have inherited IRAs may need the money now.

There are three ways to avoid the 10% penalty tax in section 72(t). The three methods are not the only ways to qualify for these exceptions. All the IRS cares about is that you're receiving “substantially equal periodic payments” from the IRA, and thus are paying taxes on this income. Payout method #3 is also a way to do this (but don’t use it before getting advice from a tax pro).

Payout method #8 uses the same calculations used for Inherited IRA distributions and the 72(t) method called Life Expectancy. Basically the end of the last year’s balance is divided by the life expectancy of the owner. These life expectancy numbers go down every year, so the required payments escalate to the point that all of the IRA is distributed over the person’s lifetime (assuming that they live until life expectancy, recently adjusted to age 115). Of the three methods of doing 72(t), this method will result in the lowest annual required minimum distributions from the IRA.

**9) IRS Rule 72(t) Governing Pre-Age-59½ Tax-Qualified Plan Distributions Using the Fixed Amortization Method:** The same story applies as above, but the formula is different. A time value of money formula is used, using life expectancy numbers, end of the last year’s balance, and an assumed interest rate. This method will result in the highest annual distributions.

**10) IRS Rule 72(t) Governing Pre-Age-59½ Tax-Qualified Plan Distributions Using the Annuitization Method:** The same story as above applies here too. This method uses an actuarially determined annuity factor, so be careful. This method produces about the same annual distributions as payout method #9, but are just a little less. This method is the least used of the three.

That was the end of explaining payouts, now continuing on with the last two columns of the same section:

The next column indicates what rate of return was used for each investment. These are just guesses, and if you feel they will be something else in a certain year, it can be changed. For example if you have a limited partnership, or something that has different rates of returns in different years, it can be estimated.

The next column is the percent of the asset's income, not its growth, that is subject to the average tax rate described earlier. The pre-retirement earnings / growth / profit of each investment is not taxed in the stand-alone retirement planner. But when the asset produces income that you'll spend, then this part is taxed. It turns out that taxes on non-qualified pre-retirement distributions is much less significant than most people think, once the math is performed properly.

For example, suppose you have a mutual fund that is producing $10,000 of your retirement paycheck. The fund grows by $20,000 in the same year; and your average tax bracket was set to 25%. If we used 50% as the percent of the generated income that's subject to taxes, then $1,250 ($10,000 \* 0.5 \* 0.25) just disappeared in taxes and the rest went to fund your income goal in that year. The growth on the mutual fund was not taxed. Using 50% is common because when you sell mutual fund shares to get money to spend, on average about half is taxable capital gains and about half is the return of the initial investment (AKA basis), which is not taxable. We guesstimate on these numbers because nobody knows what will really happen.

The bottom section (*Primary Non-Asset Retirement Income Summary*) is the summary of the sources of your retirement income that did not come from "investment assets." In this program, a retirement investment asset is something that has value, and you could sell it and get this whole value. Social Security can be considered an asset, but you can't sell it and get the money. The same applies to any earned income, old-style defined benefit pensions, annuities that have been annuitized, income from trusts when you cannot get at the principal, etc. Not everything in this category is shown here. Only the usual primary sources (from the Cash Flow Projector program) are listed, like Social Security, pensions, and earned incomes during retirement.

All dollar amounts shown are before taxes are taken out. The amounts after taxes are shown on the tax report. The beginning and ending age columns are just that - when these incomes start and stop. Social Security pays until you pass away, so that's why it says "n/a." Earned income, and other things, may also stop at a certain age.

The next column shows the annual inflation rate - or how much these incomes are estimated to increase every year. As usual, we're just guessing. The last column shows whether the income is taxable or not. Some income streams are not taxable. If you have income high enough to make your Social Security taxable, then it will show up here (and on the first page).

The next page or two (*Annual Summary Numbers*) shows all of your miscellaneous income and expenses, and summarizes all of the items year-by-year.

The first five columns show what age you will be in future years, and the average tax rate used.

The next column, *Combined Income Goal*, shows your regular income goal going up annually with inflation. Combined just means that you and your spouse's incomes were added together. If you wanted to downsize a house, or otherwise reduce your income goal in future years, then you can see this here.

The next column, *Combined Annual Social Security*, shows these income amounts after taxes.

The next column, *Combined Annual After-Tax Miscellaneous Income and/or Expense (*or *Combined Annual Non-asset Income)*, is just the next page or two's numbers all added together every year. In other words, all of the amounts shown on the next page or two, *Miscellaneous Annual Expense and Non-Asset Income Details,* are summed up here.

Miscellaneous income is money that you plan to get from sources other than your assets after you have retired. Some examples are earned incomes from hobby businesses, selling real estate, rental property income, inheritances, trusts, winning lawsuits, etc.

Any significant amount of money you plan to spend in addition to your normal income goals will show up here as a miscellaneous expense. Miscellaneous expense examples are putting children through college, replacing expensive vehicles every few years, buying a vacation home, etc.

These amounts are all "inflated," so if you put down that you want to buy a $35,000 vehicle five years after you have retired, then this could show up as a $45,000 expense on this page in that year if we used a 5% inflation rate (if you retired this year).

The next column (in the stand-alone version), *Combined Annual Earned Income*, displays all of your post-retirement earned incomes after taxes.

The next column (in the stand-alone version), *Combined Annual Pension Income*, are all of your incomes from old-style defined benefit pension plans, annuities that have been annuitized, etc., after taxes.

The next column, *Combined Annual Asset Income*, display all of the combined after-tax asset incomes.

The next column, *Combined Annual Income Surplus or Deficit*, is a little tricky because it depends on how all of your assets are structured to pay out income. Basically, if your income goals and miscellaneous expenses are more than what can be generated from your assets and miscellaneous sources of income, then you'll be spending more money than what's coming in that year. For example, if your income goal has inflated to be $100,000, and all of your sources of income only total up to $75,000 after taxes, then a deficit, of -$25,000 will show up here. Deficits are very bad, and are to be minimized and/or avoided.

The next column, *Percent of Income Goal Being Met:* If one had enough assets, and set them up right so that they’d pay out income that always met expenses perfectly, then these numbers will always be 100%. Numbers below 100% indicate problems with your retirement plan that need to be addressed ASAP.

The next column, *End of Year Balance of Capital*, shows how much money, in marketable assets, the program estimates you will have left over at the end of each year. These amounts are after taxes, withdrawals, and the rate of return growth rates are applied. If you consistently spend more money than these assets generate, then your balance of capital will decline over time, and eventually run out. If you spend less, then your balance of capital will continue to grow, sometimes astronomically.

If, however, there is not enough income to meet expenses, this number will be lower. For example, if the income goal is $50,000 and only $25,000 was available, then this number will be 50%. It’s possible to see numbers more than 100% is there is a surplus in that year, and less than zero if the annual deficit is larger than the current year’s income goal. Numbers under 90% indicate trouble ahead. The average over the life of the retirement plan is shown in the text of the column title.

The next column, *Average Weighted Rate of Return on Assets:* This estimates the average rate of return on all of your investment accounts combined. Since some investments pay out more than others every year, they do not all grow or shrink at the same rate. So the program just calculates the average.

For example, if you have two investments both about equal in size, and one gets a higher rate of return than the other, and a lot more money comes out of the higher return asset in the form of income in a certain year; then at the end of that year, you will have less money left over in this investment than in the other investment. So the average weighted return on your overall portfolio will decline a little bit because you have less money in the investment with the higher rate of return.

The next column, *Percent Change in Asset Balance from Previous Year*: This shows just how much all of your investments combined have grown or shrunk by the end of each year. It simply compares the *End of Year Balance of Capital* from one year to the next, and calculates the percentage change.

The next column, *Present Value of Additional Capital Needed Now vs. at Retirement:* These numbers are the additional year-by-year amounts needed now to make up for shortfalls. If one wanted to only fund retirement up until a certain year, then the number shown in that year shows how much is needed as a lump sum today. These numbers increase every year because every year’s amount is just added to the running totals.

For example, if in the tenth year after retirement has begun, there is $10,000 in the *Present Value of Additional Capital Needed at Retirement* column: This means that, because of any number of retirement plan deficiencies, you’ll need another $10,000 to pay your expenses in that year. The column to the right display how much more you’d need to invest today, to have that $10,000 ten years from now.

In general, you want these two columns to always be $0 in order to have a successful retirement plan.

**The Tax Report**

If there is a tax report, then each column just shows the estimated amount of taxes paid in every year from that source of income. The middle section is for non-asset incomes, and the right section shows taxes from asset income withdrawals. Then they’re all totaled up at the right.

**Graphs**

The first graph summarizes the whole picture with two numbers from the previous two pages. The sixth column on the previous page, *Combined Income Goal,* is in blue; and the; *End of Year Balance of Capital* (fifth column from the right on the previous page) is in maroon.

This shows how much money we estimate you'll be spending in each year, compared to how much money you have. This is the bottom line shown graphically. This is an easy way to see the financial dips and bumps in your future and what cause them.

We hope all of the other graphs are self-explanatory, as they say what they’re about.

**Input Summaries**

If this was printed, then it just displays what input data was used to generate your retirement plan.

**What You Can Do if the Report Shows You'll Run Out of Money**

Look on the first page of the retirement plan at the bottom where it shows *Additional Funding Needed to Reach Your Income Goals.* If there are any numbers (other than zeros), then the program has figured that you will run out of money before you pass away. The ending age is usually set at 100, but this can be changed. The sooner one passes away, the less money it takes to fund the retirement plan.

If this is the case in your retirement plans, then you're probably curious what it would take to solve this problem. Here is a list of the most common techniques used:

🞄 Invest more money now, or over time. First, check to see that all of your investments are listed. Clients sometimes "forget" to tell their financial advisers about all of their investment accounts.

🞄 Get a higher rate of return on the investments, both now and throughout retirement. If you have investments earning bank interest rates, then that's a major problem. Fortunately, we also specialize in investment management, using sophisticated asset allocation techniques, so we can help here too.

🞄 Lower your income goal (the amount of money you'll be spending when retired). Take a good look at your budget and see if you really need to spend all of the money you put down as your income goal. If you don't have a budget, then we can help with that too by using the Family Budget and Cash Flow Projection software. Since the amount of money you have now probably can't be changed, and the rate of return you'll get cannot be predicted, lowering your income goal is the most effective option.

🞄 You can retire in a later year. Every year you wait, the more money will accumulate (assuming your investments are well managed and don't go down, and/or assuming you will be saving money for a longer period of time). Also, every year less spent in retirement means a year where there’s no withdrawals from your assets. No withdrawals in one year means there’s more money available in future years.

🞄 Lower the age that you will assume you’ll pass away. Every year you're alive depletes your capital base, especially the later years. If you're pretty sure you won't make it past a certain age, then we should show that in the report (or make an additional report).

🞄 Lower the cost of living inflation rates on your income goals. These numbers should reflect the current environment to some extent, but should also err on the high side, but not by too much. Make sure it’s realistic.

🞄 Find out what you will have in Social Security by getting the updated data directly from the source. You can download Social Security’s free *AnyPIA* calculator from their website and get accurate numbers: <http://www.ssa.gov/>

🞄 Lower the age when you will collect Social Security. If you plan on being retired at age 62, then you should definitely take it at age 62. There are no benefits to waiting (because actuaries ensure the same amount of money will be paid to you both ways if you make to age 100) and there are good benefits by taking it ASAP. Namely, you may pass away soon after you turn 62, in which case you'll never collected on your benefits.

🞄 Take all pensions as soon as you can, for the same reasons as above.

🞄 Ensure all of your investment assets are structured with paying out retirement income in mind. For example, if you have a portfolio of individual bank CDs or bonds, then instead of just spending the coupon interest, you should sell some of them, or don’t roll them over when they mature.

🞄 Think hard before annuitizing annuities. Most of the time, you’re much better off by not doing that (by waiting until you’re 60, and then liquidating it, and then investing the money in a do-it-yourself brokerage account).

There are other minor things that can be done, but these are the top things people do in the real world.

Please contact us if you have any questions or would like more information.