

SilverStone Group

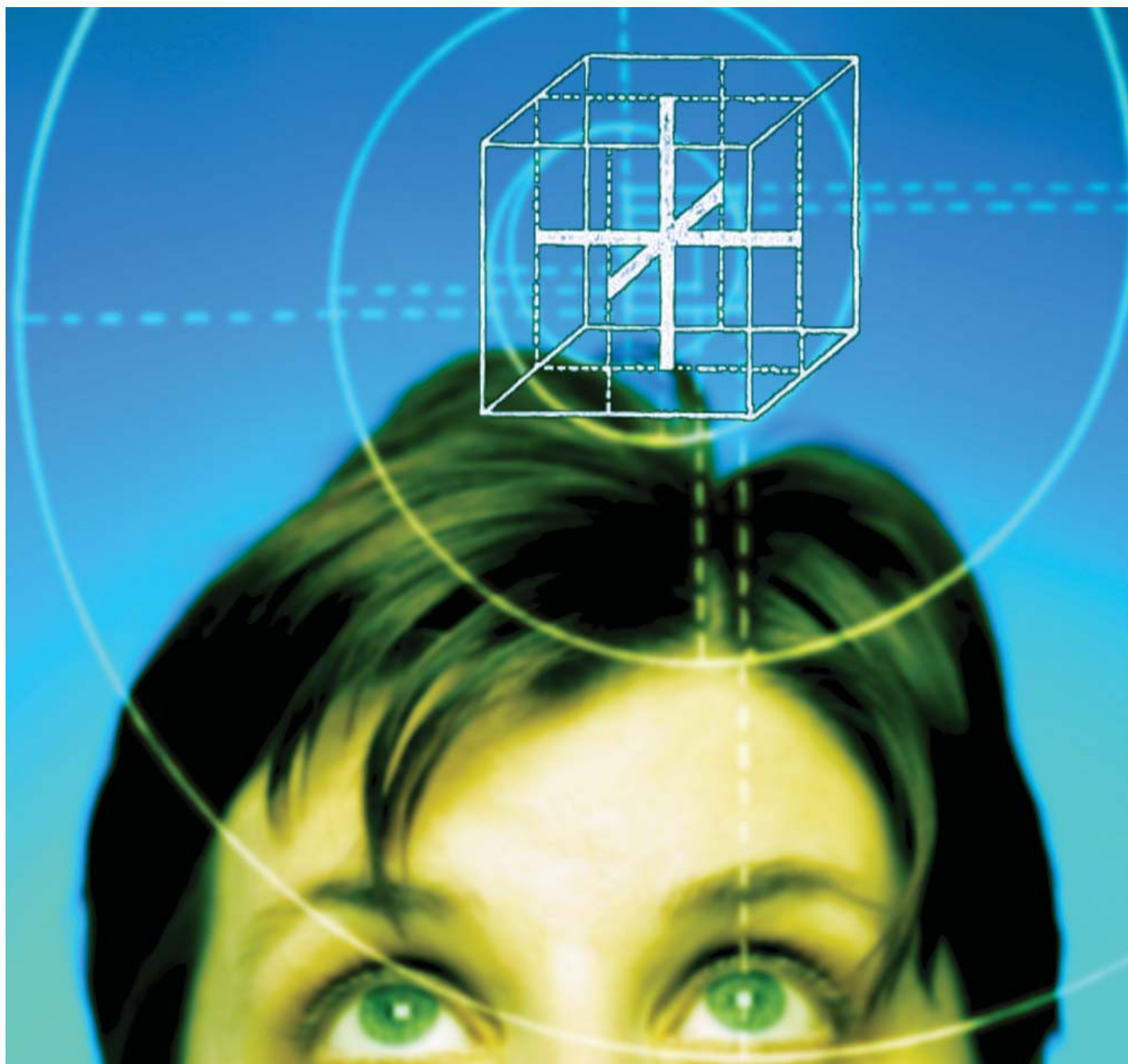
EMPLOYEE BENEFITS

Investment Services

Retirement Income Red Zone

Thinking Outside the Box

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Retirement is either here or knocking at your door. Either way, you're trying to figure out how to get the most out of your nest egg. When you've done a decent job of accumulating money for retirement, but you're not sure you've met your financial goals, you may need to do some out-of-the-box thinking. Below are a few ways you might think about setting up your accounts.

The Options

Let's say you have (or are projected to have) \$1 million at retirement. Step one is to add up all your sources of after-tax retirement income, including Social Security, company pension plans, etc. Once you've tallied what your after-tax monthly income will be from those sources, you need to figure out how much money your \$1 million portfolio must generate in order to have the required overall after-tax retirement income. If, for example, your portfolio must generate another \$3,000 per month of after-tax income, you have several options, three of which are touched on below:

Option 1—Traditional Approach

You could allocate the \$1 million portfolio in a balanced approach and utilize the income it generates. You might, for example, allocate 70% to bonds (or mutual funds that invest in bonds) and 30% to stocks (or mutual funds that invest in stocks). If the bonds yield a 4% return and the stocks generate a 1% dividend, the result is an after-tax monthly income of just under \$2,000 (assuming a 30% tax rate). This will, unfortunately, not be quite adequate to meet your need, given the initial goal of \$3,000. You could tap into principal on the stock portion, but the risk of using up your money increases because you may be liquidating principal when the stock market is down and ultimately need to liquidate a greater number of shares to provide the desired income.

Option 2—Bucket Approach

Another option is to create three separate "buckets" of income. For bucket #1, take roughly 1/3 of the \$1,000,000 (\$333,333) and purchase a fixed annuity that would generate guaranteed after-tax monthly income of approximately \$3,000 for a period of 10 years, assuming a 30% tax bracket. If you desire such guaranteed income to continue for more than 10 years, it may cost you more

to get that option, leaving less money in the other two buckets. You could then invest one-third in bucket #2 in a 60% stocks/40% bonds allocation and one-third in bucket #3 in 100% stocks. You can have the confidence to invest buckets #2 and #3 more aggressively because you've locked in the income in bucket #1 for 10 years. You would use diversified mutual funds for this strategy.

Once you invest bucket #3, you may not need to make any withdrawals of principal from that bucket for 10 years. As a result, assuming an 8% return, given the 100% equity allocation and the 10-year time horizon, this bucket will be worth \$719,000. Assuming the principal amount of bucket #2 remains invested and earns 6% over the next 10 years, it will be worth approximately \$596,000. Thus, the total pre-tax value of buckets #2 and #3 at the end of the tenth year would be \$1,315,000. At this point, you could simply create three new buckets again and use the increased value to purchase a higher level of guaranteed income for the next ten years.

Option 3—Variable Annuities and 5% for Life

This strategy involves allocating \$1 million to a combination of variable annuities that promise to pay 5% for life based upon either the initial investment or the annual contract value, whichever is greater. This would generate \$50,000 annually pre-tax and, \$35,000 post-tax (\$2,916 per month), assuming a 30% tax. Using the variable annuity basically meets the income objective and also, if the contract increases in value, the 5% guaranteed income is based upon that higher contract value (rather than just the original amount invested). You would need to keep in mind, however, that over the course of your retirement, the purchasing power of your monthly income will likely continue to decrease as a result of inflation.

You've worked hard and have earned your retirement, but sometimes you need to think outside the box in order to meet your retirement income goals. It's a good idea to discuss your retirement assets with a qualified retirement investment advisor. Be sure to choose an expert who will work with you to allocate your assets so that you will have an adequate level of retirement income.

Investments in securities involve risks, including the possible loss of principal. When redeemed, shares may be worth more or less than their original value. Diversification does not ensure a profit or protect against loss in a declining market.

*Variable annuities are long-term investments designed for retirement. The value of the investment options will fluctuate and, when redeemed, may be worth more or less than the original cost. Withdrawals of taxable amounts will be subject to income tax and if taken prior to age 59 1/2 a 10% federal income tax penalty may apply. A withdrawal charge may also apply. Withdrawals will also reduce the guaranteed benefits and account value. All product guarantees are based on the claims-paying ability of the issuing insurance company. **Investors should consider the investment objectives, risks, charges and expenses of any variable annuity or mutual fund carefully before investing. For a prospectus containing this and other information, please contact your financial professional. Please read it carefully before investing or sending money.***