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Upgrading Your Approach to Retirement Planning

We are all well aware that the nature of retirement is not what it used to be years ago. There have been a variety of changes including the disappearing traditional employer pension replaced by the 401(k), raising of the full retirement age for social security, and an abundance of incentives for employees to retire early, to name a few. In this new economy we live in, with employers needing to keep their workforces as lean as possible, workers will continue to be encouraged one way or another to retire at earlier ages than in the past. And we know that life expectancies continue to increase for a number of reasons, so the result is that we are trending towards a situation where people will spend as much time in retirement as they spent in the workforce. Not only that, but retiring earlier and continuing to be very active can mean that spending, at least in the beginning of retirement, may not drop significantly as was the traditional way of thinking. With that combination, it is now more critical than ever that you approach retirement planning with the right state of mind. Below are important considerations in three vital areas to help you prepare to upgrade your retirement planning approach.

Differentiate between Accumulation and Distribution Investing

Traditionally retirement investing has only focused on Accumulation, where you are steadily building to grow your assets, but during Distribution the key is providing a steady stream of income with the opportunity for increases as time goes on.

- Brief market downturns have less long term impact in Accumulation mode and can actually benefit you through Dollar Cost Averaging because you aren't taking withdrawals.
- In Distribution mode you need to be much more aware of market conditions and minimize losses, especially when taking distributions in those early years because the combination of investment losses and withdrawals are difficult to overcome.

Manage Social Security to Maximize Income

This leg of the "Three Legged Retirement Stool" is sometimes taken for granted, but many opportunities exist to squeeze out more income than you might recognize.

- Early retirees will often need to apply for benefits prior to their full retirement age (as early as Age 62).
- The decision of when to take your benefits (at Age 62, Full Retirement Age, or up to Age 70) can have a significant effect on lifetime income, and you should evaluate each of the possibilities to allow the system to work to your best advantage.
- You may have options available to you to provide income at an earlier age without sacrificing a reduction in income through the use of a number of spousal benefit utilization strategies.

Balance the Need for Income with the Need for Growth in Your Retirement Strategy

When employer pensions made a major contribution to retirement income, investments played a lesser role and you could plan to "live off the interest", but with today's retirement environment there is often a need for investment growth as well.

- If you don't have a traditional pension, you can build an investment strategy that essentially creates a "Personal Pension".
- A rollover from a Lump Sum Pension option and/or 401(k) Plan can serve both income and growth needs.
- A segment of your retirement portfolio can be designated for producing stable lifetime income for your essential needs and another portion to provide long term growth to replenish used assets and help overcome the effects of inflation.
- The key is maintaining the right portfolio mix to provide adequate income that will last throughout retirement.

With all of these issues, a hidden cost that can adversely affect your retirement income is taxes, so you also want to consider the tax treatment of your income sources and how you can structure your overall retirement planning strategy to keep Uncle Sam at bay.

Now is the time to evaluate your retirement planning strategy. If you would like some assistance with that process to position you for today's changing retirement landscape, give us a call for a free initial consultation to upgrade your retirement planning itinerary.

Stewardship Emphasis

It's natural to be comfortable with the familiar because we know what the results have been in the past, but changing times may call for us to move beyond the familiar to something new to achieve greater results than we've ever seen.



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