

# THE ESSENTIALS OF WHAT YOU NEED TO KNOW ABOUT RETIREMENT INCOME

The Right and Wrong Ways to Invest for Income



## Find out why:

- Investing for Income may make sense if you were born in 1970 or earlier
- Most investors, and advisors, don't know how to invest for income
- The withdrawal method can be bad for your financial health



*Look Inside To Help Secure A Better Financial Future*



Income is not a new concept. It's been around for centuries, as a way for people to get paid for some form of labor or capital. However, after decades spent working for our income, the last thing most of us want is to have to keep working during our "golden years" in order to help secure the income we'll need to enjoy a more comfortable retirement.

That's the goal, right? To be able to stop working and spend time doing the things we enjoy. However, in order to do that, we'll need income to pay for all the fun activities we have planned for our retirement.

That's exactly what we are going to cover in this report. We're going to talk about retirement income—the sort of money that comes in the door with little to no "work" on your part, since the whole idea of retirement is to stop working, or at least be able to have the option if you wish.

We are going to discuss Investing for Income—investing your hard-earned savings, so you can use it to establish renewable streams of income for retirement.

## So, What's the Big Deal About Retirement Income, Anyway?

During my 30 years as a financial advisor, I've noticed that most people tend to underestimate how expensive retirement can be. The problem is that when you stop working, not only do you have less income coming in the door, but you also have a lot more time on your hands. Unless you plan on sitting at home watching TV every day of your retirement, you're going to need income in order to fill that time with activities that enrich your life.

The plain and simple truth is that an enjoyable retirement is not cheap. It's a luxury, and luxuries can be expensive. Unfortunately, it's not just the luxuries, like going out to eat frequently, playing golf, or travelling to visit your friends and family that are expensive.

Something else you need to be aware of is that inflation tends to impact the goods and services we'll need during retirement more than it does regular goods and services, like with healthcare, for example. However, that doesn't mean you have to go into retirement with a humble frame of mind, thinking you have to count your pennies.

By making a simple, yet powerful, switch in the way you approach saving and investing for your retirement, you really can establish your own renewable streams of income—in some cases, while helping to preserve the principal balance of your retirement savings.

The switch I'm talking about is making the change from investing for Growth to Investing for Income. Failing to make this critical shift at the right time is why many Baby Boomers fall short of reaching their goals for retirement.

Why do so many Baby Boomers fail to make this critical switch on time? I believe you can blame it on addiction.

Those people who are in their 30s and 40s have a healthy respect for the potential dangers of investing for growth in the stock market, since their earliest experiences with investing involved the bursting of the Tech Bubble and the Financial Crisis.

On the other hand, many Baby Boomers first got serious about investing during the 1980s and 90s, in what was one of the fastest growing stock markets in U.S. history. As a result, they, and their advisors, became dangerously addicted to chasing growth in the stock market.

Since many were participating in the market through workplace 401(k)s that invested primarily in mutual funds, they began to mistakenly associate mutual funds with safety. Due to the tremendous growth these Baby Boomers experienced at that time, they also developed the misconception that "Growth" and "Return" mean the same thing, and completely forgot about dividends and interest payments.

As a result, their financial paradigm became focused on investing for growth in the stock market. The reality is that Growth is just one component of return; Income is the other. In other words:

## TOTAL RETURN = INCOME + GROWTH

It is important to note that Growth (G) comes from capital appreciation and usually involves stock market investments, which can be unpredictable. Income (I), on the other hand, comes from interest and dividends and can be much more predictable, especially when you're investing by contract, which is often the case when it comes to fixed income investing.

The problem with investing for Growth as you get ready to enter retirement is that the "G" you are counting on can easily turn into an "L" (loss) and leave you scrambling to make ends meet.

For example, let's say you've determined you'll need a total return of \$50,000 per year to cover expenses during retirement. If your investments are generating \$30,000 in Income (interest or dividends) each year, you would need to generate \$20,000 each year from the Growth component of your portfolio.

Well, what would happen if we experienced a major market correction during your first few years in retirement, and you were no longer able to generate \$20,000 from the Growth component of your portfolio?

- Would you be willing to change your life-style and make do with less?
- Would you tap into the principal balance of your savings - knowing what a slippery slope that could be?
- Would you be willing and able to go back to work?

Obviously, none of these options are very appealing. That's why it's critical for anyone close to retirement age to make the switch to Investing For Income ahead of retirement.

The trick to a more successful retirement is to keep that income coming through the door

without having to work for it and without having to stress about each move the market makes downward.

By switching your focus from growing the value of your assets (offense), to increasing, then protecting the interest or dividends they generate (defense), you can use your savings to generate consistent income. This way you won't have to spend the principal balance of your savings, unless you choose to.

This is the reason my good friend, Patrick Peason, founder of Peason Financial Group, likes to say: "If you want retirement to be stress-free, invest for the "I", not for the "G".

## BEWARE THE DANGERS OF THE WITHDRAWAL METHOD

A widely accepted rule of thumb that many advisors use is the 4% "Cash Flow" rule—which says a person "should" be able to withdraw 4% of their retirement savings each year without running the risk of outliving their savings.

So, if you had the good fortune of accumulating \$1,000,000 in retirement savings, you "should", in theory, be able to withdraw 4%, or \$40,000, each year for life. However, what if you retired at age 65 in the year 2000, and failed to make that critical shift from investing for Growth to Investing for Income ahead of retirement?

Although the market experienced two significant drops as a result of the bursting of the Tech Bubble and the Financial Crisis, the S&P 500 experienced an average annual return of 6.05% during the 20-year period from 1/1/2000 – 12/31/2019. So, with \$1,000,000 saved, you would think you would be okay withdrawing 4% per year, right? Well, not so fast.

As you can see in the chart below, although the stock market, measured by the performance of the S&P 500 Index, averaged an annual return of 6.05% for the last 20 years, someone who retired in 2000 and took 4% withdrawals from their stock index fund each year would end up cannibalizing nearly half of their retirement savings in just 13 years.

Now, imagine the stress at age 78 of going to see your doctor and hearing the "good news" that you are in as good shape as you were the day you retired—but knowing that you now have to make it the rest of your life on half of your money. Imagine having to question each and every expense in retirement, like taking that vacation or going to dinner. Sounds horrible, right?

The anxiety of knowing that you would basically need an enormous return in the stock market during the following years in order to recover would not be something you want to experience in retirement.

## THE WITHDRAWAL METHOD



### Market History

DATE	BEG. CASH	S&P 500 Total Return	WITHDRAWAL	END CASH
2000	\$1,000,000	-9.10%	40,000	\$871,496
2001	\$871,496	-11.89%	40,000	\$728,734
2002	\$728,734	-22.10%	40,000	\$531,372
2003	\$531,372	28.68%	40,000	\$637,080
2004	\$637,080	10.88%	40,000	\$663,272
2005	\$663,272	4.91%	40,000	\$654,123
2006	\$654,123	15.79%	40,000	\$713,949
2007	\$713,949	5.49%	40,000	\$713,041
2008	\$713,041	-37.00%	40,000	\$418,385
2009	\$418,385	26.46%	40,000	\$480,779
2010	\$480,779	15.06%	40,000	\$508,140
2011	\$508,140	2.11%	40,000	\$479,099
2012	\$479,099	16.00%	40,000	\$514,132

\*Returns calculated using month end price of the SPTR index published by CBOE

Now, imagine if that same person, with the \$1,000,000 in retirement savings, didn't make the shift to Investing for Income ahead of retirement, and decided to only withdraw the dividends paid by stocks in their S&P 500 stock portfolio.

In the chart below, you can see that this person would be able to withdraw \$15,000 (average dividend) each year during this 13-year period and still have nearly 97% of the principal balance of their savings left to cover expenses for the remainder of their retirement.



## THE INCOME METHOD: SPENDING THE DIVIDEND ONLY

### Market History

DATE	BEG. CASH	S&P 500 Total Return	DIVIDEND	END CASH
2000	\$1,000,000	-9.10%	15,000	\$894,909
2001	\$894,909	-11.89%	15,000	\$773,850
2002	\$773,850	-22.10%	15,000	\$589,209
2003	\$589,209	28.68%	15,000	\$740,704
2004	\$740,704	10.88%	15,000	\$805,132
2005	\$805,132	4.91%	15,000	\$829,031
2006	\$829,031	15.79%	15,000	\$943,663
2007	\$943,663	5.49%	15,000	\$980,458
2008	\$980,458	-37.00%	15,000	\$606,142
2009	\$606,142	26.46%	15,000	\$748,431
2010	\$748,431	15.06%	15,000	\$844,273
2011	\$844,273	2.11%	15,000	\$847,187
2012	\$847,187	16.00%	15,000	\$967,152

For some investors, this income might not be enough. The \$15,000 in dividends that person was able to withdraw each year could have been even more if that money were invested with a greater focus on income, through dividends, instead of growth.

Keep in mind that Investing for Income could be done by investing with a focus on dividends in the stock market. This would allow you to still get a 4% dividend and withdraw \$40,000

in income each year without touching your principal. Keeping your principal intact would allow time for your money to recover from a market drop.

Of course, remember that companies can cut dividends when you invest in common stock. However, there's another way where companies can't cut dividends unless they become insolvent.



## INVESTING BY CONTRACT

RIS & SIS Income Method				
DATE	BEG. CASH	S&P 500 Total Return	WITHDRAWAL	END CASH
2000	\$1,000,000	4.00%	40,000	\$1,000,000
2001	\$1,000,000	4.00%	40,000	\$1,000,000
2002	\$1,000,000	4.00%	40,000	\$1,000,000
2003	\$1,000,000	4.00%	40,000	\$1,000,000
2004	\$1,000,000	4.00%	40,000	\$1,000,000
2005	\$1,000,000	4.00%	40,000	\$1,000,000
2006	\$1,000,000	4.00%	40,000	\$1,000,000
2007	\$1,000,000	4.00%	40,000	\$1,000,000
2008	\$1,000,000	4.00%	40,000	\$1,000,000
2009	\$1,000,000	4.00%	40,000	\$1,000,000
2010	\$1,000,000	4.00%	40,000	\$1,000,000
2011	\$1,000,000	4.00%	40,000	\$1,000,000
2012	\$1,000,000	4.00%	40,000	\$1,000,000

\*Even bonds and bond-like instruments would have fluctuated, but most investors would have the peace of mind knowing they have a par value, or face value, equal to \$1,000,000.

In the example above, if you had placed that \$1,000,000 into an actively managed portfolio of income-generating investments, such as bonds and bond-like instruments with contracts that pay 4% interest or dividend payments, it would allow you to withdraw \$40,000 each year without ever having to tap into the principal balance of your retirement savings—since the 4% is coming from the income earned.

**When you invest in this manner, your income is much higher, and is assured by contracts.**

This is why advisors who are knowledgeable and experienced in the right ways to Invest for Income will take the time to create a

customized portfolio of higher dividend-paying stocks, or individual bonds and bond-like instruments, for their clients.

One of the great things about investing for income is that you can earn income in two ways—as interest and as dividends. Plus, you can also take advantage of opportunities for organic growth by reinvesting the income you might not need at the time.

That is exactly what the Income Specialists at The Retirement Income Store® specialize in: helping our clients generate ongoing income, in the form of interest and dividends, while taking advantage of opportunities for organic growth.

## **Financial Advisors Who Specialize in Investing for Income Can Help to Ensure Their Clients' Smooth Transition into Retirement**

The Retirement Income Store works with a wide range of clients nationwide and specializes in helping those who are in or near retirement. Our Income Specialists are experienced in investing with methods that can help to maximize opportunities for income and growth, while helping to minimize risk.

If you were born in 1970 or earlier, our Income Specialists can help to get you started on the path to a more reliable retirement outcome than most traditional stock market-based plans can offer.

When you have your call with an Income Specialist in your area, they can help you determine the extent to which investing for income can work for you. If you have any questions while reading the material in your Retirement Income Kit, please write them down, so you can remember to ask your Income Specialist about them during your complimentary call.

For additional information, feel free to call us on our main line at (888) 888-4176, or visit our website: [TheRetirementIncomeStore.com](http://TheRetirementIncomeStore.com).



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