When I meet with prospective clients who are close to retirement, many have similar questions or concerns as they transition from saving for retirement to evaluating options on using their savings for retirement income.

"How can I start receiving income while still positioning my investments for future growth?"
"What is a safe withdrawal rate for my portfolio?"
"Are there any steps I can take to lower my taxes?"

The mindset of simply "living off interest" that retirees were able to utilize in the past will not generate much income or keep up with inflation in today's low interest rate environment. A portfolio must now be designed with the appropriate asset allocation (or risk) that will generate income and keep up with inflation throughout retirement.

Many have probably of heard of the 4% rule, which assumes that a retiree can withdraw 4% each year (adjusted annually for inflation) from his or her nest egg in retirement. This rule is based on the popular Trinity Study which analyzed the success of different withdrawal rates over a 30-year time horizon which is a typical length needed for a retirement portfolio. As with most rules of thumb, it is not applicable to everyone as it doesn't consider the unique set of circumstances for each retiree. Not everyone will have the same retirement income needs or estate planning goals.

Prior to retirement, it is important to estimate the amount of income that will be needed from investments to supplement other fixed sources of income such as social security and pensions. If the amount needed annually from your nest egg is less than 4% of the total balance, then your portfolio has a higher chance of continuing to grow while supporting your retirement income. However, if the amount needed is higher than 4%, then you may run the risk of depleting your assets at a higher rate.

Once the withdrawal amount is determined, it is important to plan for how to actually make distributions from the available accounts. The distribution planning often gets overlooked, but it can really help minimize taxes during retirement. By analyzing your projected tax rates in retirement, a financial planner or tax professional should provide guidance on how much should be pulled from tax-deferred, tax-free, and taxable accounts to meet annual spending requirements. In addition, possible Roth IRA conversions should be evaluated which could lower future taxes and reduce the amount of required minimum distributions that have to be taken after age 70-1/2 from 401K and IRA accounts.

It's important to utilize the services of a fee-only financial planner to help you evaluate your options. There are many salesmen that advertise a hassle-free retirement or appear to offer some strategic set of investments for income. Don't be fooled by these annuity salesmen who are just pushing products for commissions to the next group of unsuspecting consumers. By using a fee-only firm, you get the peace of mind that you are receiving unbiased advice without being sold an annuity or other high-commission product that will benefit the salesman's retirement plan, not yours!