Money for Life

Turn Your IRA and 401(k) Into a Lifetime Retirement Paycheck

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# Table of Contents

## Introduction ............................................................................................................. 1

## Part One: The Basics

- **Chapter 1** The *Money for LIFE™* Five-Step System ........................................ 11
- **Chapter 2** Three Ways to Generate Lifetime Retirement Income ............... 21
- **Chapter 3** RIG #1 – Investment Income ......................................................... 30
- **Chapter 4** RIG #2 – Systematic Withdrawals ............................................... 38
- **Chapter 5** RIG #3 – Immediate Annuities ....................................................... 55
- **Chapter 6** Hybrid Solutions ........................................................................... 69
- **Chapter 7** My Five Favorite Retirement Paycheck Solutions ....................... 75
- **Chapter 8** How to Decide Which Solution Works for You .......................... 86
- **Chapter 9** Win/Regret Analysis ................................................................... 97
- **Chapter 10** What’s Your Retirement Number? .............................................. 101
- **Chapter 11** Working With Financial Advisors ............................................ 107

## Part Two: The Details

- **Chapter 12** Taxes Matter! .............................................................................. 119
- **Chapter 13** Managing Your Investment Risks ............................................... 133
- **Chapter 14** Refining Your Strategy for Systematic Withdrawals ............... 143
- **Chapter 15** Protecting Your Annuity ......................................................... 156
- **Chapter 16** A Closer Look at Guaranteed Lifetime Withdrawal Benefits (GLWB) .... 160

## Resource List ................................................................. 174

## Acknowledgments ................................................................................................. 177

## Index ................................................................................................. 179

## About the Author ......................................................................................... 183
If you’re like most people who are approaching retirement, you’ve thought long and hard about the answers to these two questions:

*How much money do you need to retire?*

*How can you generate reliable income from your retirement savings that lasts for the rest of your life, no matter how long you live and no matter what happens in the economy?*

These are critical questions for most boomers who are planning for a retirement that could easily last 20 years or more. And that leads us to the most important question of all:

*When exactly can you retire?*

These three questions have become particularly significant as companies continue to abandon traditional pension plans, plans in which your employer takes responsibility for funding and paying you a monthly retirement income for the rest of your life. Without these safety nets in place, planning for retirement now falls heavily on the shoulders of employees everywhere.

With the demise of pension plans, as an employee, you’re now much more likely to participate in account-based plans, such as a 401(k), 403(b), 457, profit-sharing, or cash balance plan. You might also have substantial savings in an IRA or regular investment accounts. And some of you might elect a lump sum from a traditional pension plan, in which case you face the same challenges.

With these types of programs, however, you’re on your own when it comes to making your money last for the rest of your life. And when your money is
exhausted, there’ll be nobody there to bail you out, unless you have very generous relatives or friends.

So just how much money do you need and how can you make it last? And when will you have enough to retire? While you could just guess, as many people do, this book will show you better ways to determine the answers to these questions.

**A tale of two retirees**

Here are two stories about people I know who have had to manage their own retirement savings. These stories contrast the potential outcomes of this challenge and offer important insights about the strategies that will help you achieve your retirement goals.

The first story is about a friend of mine who was a vice president of finance for a Fortune 1000 company. In 1999, he retired at age 65 with a lump sum settlement from his employer’s retirement plan. At the time, the amount he received seemed like a lot of money, so he didn’t change his spending habits. He simply withdrew the amounts he needed for his living expenses. He enjoyed his first years of retirement, feeling carefree, spending time with his grandkids, and doing what he’d always wanted to do, although nothing extravagant.

Unfortunately, that carefree time didn’t last too long. My friend had invested substantial sums in the stock market, and two stock market crashes later, he’d exhausted his savings just 10 years after retirement. To make matters worse, he lost his home when he could no longer make the mortgage payments. He’s now in his late 70s and is driving deliveries to make ends meet. His “golden years” have rusted out!

**Spend without planning**

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The second story concerns my 91-year-old mother. Her retirement is funded by a monthly lifetime annuity she got as a result of my father’s employment as a professor at USC (my father passed away in 2005). She supplements that annuity and her Social Security income with interest and dividends earned from a carefully saved portfolio that’s invested in stocks and bonds (401(k) plans didn’t exist in her day). She never taps into the principal of this portfolio for day-to-day expenses; instead, it serves as a reserve in the event of financial emergencies or if she needs long-term care somewhere down the line. If the portfolio doesn’t get completely depleted during her lifetime, any remaining money will pass to her heirs. With these financial plans in place, my mother has enjoyed a 31-year retirement – and counting – and she’s still going strong.

What lessons can we learn from these two stories? My mother and father both made smart choices decades ago that enabled them to enjoy their retirement years without worrying about their money running out. On the other hand, my friend didn’t do any planning at all when he retired, an omission he now terribly regrets.

We’re headed for a train wreck

If too many boomers follow my friend’s example, our nation is headed for a retirement train wreck. It’s this type of scenario that keeps me up at night. It also keeps me motivated: I’m dedicated to helping people follow my mother and father’s example – to carefully plan for your retirement years in order to be worry-free about having your money last all through your retirement.

For most of your working life, you probably focused your attention on accumulating assets in IRAs, 401(k) plans, and other retirement savings. During your
working years, you invested for retirement; you adopted strategies that would help you allocate your assets among stocks, bonds, cash, and other types of investments, while minimizing your ongoing investment expenses.

As you approach retirement, however, you’ll want to shift your attention to generating retirement income that will last the rest of your life. But this goal can’t be achieved just by using the strategies that worked during your accumulation phase. While asset allocation and minimizing ongoing investment expenses are still important, you’ll need to consider other factors as well, such as your expected longevity and the uncertainty of how long you could live, your skill at monitoring your retirement resources, and whether you want to leave a legacy to your children or charities.

You’ll also need to make critical decisions about which method or methods you’ll use to generate a retirement paycheck from your savings, how you should invest your retirement savings, and which financial professionals and institutions you should select to help you with these critical decisions.

*Money for Life* can help you make these decisions. In this guide to generating retirement income, you’ll learn about the three ways you can generate a retirement paycheck from your savings, the pros and cons of each method, and the many variations on these methods.

Because there’s no single solution that works best for everybody, the method that works best for you will depend on your circumstances and goals. And for many people, a combination of methods might work best. So I’ll show you how to choose among these methods, given your circumstances and life goals, in order to make the most of your retirement savings.

**Generating a secure retirement paycheck is critical for everyone but especially for women**

For married couples and committed partners, it’s inevitable that one of you will die first, and it’s usually the man. Because men tend to marry women a few years younger than themselves and women tend to outlive men by three to five years, if you put two and two together, it’s easy to see why most wives can expect a five-to-ten-year period of widowhood at the end of their lives. It’s not morbid to plan for this likelihood – it’s just prudent.

Accordingly, one very important goal for couples should be the financial security of the survivor; poverty among elderly widows is a real problem in America today. For instance, did you know that a high percentage of widows over age 65 only have income from Social Security? And it’s often true that these widows weren’t poor until their husbands died.
If you’re a single woman, you’ll have to be even more vigilant about planning for retirement if you want to be self-sufficient in your retirement years. Having a secure retirement paycheck will go a long way toward achieving this goal.

Women and men tend to think differently about taking investment risks, and adding the risk of outliving your money only complicates the situation. That’s why it’s critical for women, whether they’re single or married, to understand the different methods of generating retirement income when they retire.

Many people want to help, but they can be part of the problem

There are many people who want to help you decide what to do with your retirement savings, and they all have their own biases and points of view. Insurance companies and insurance agents, for instance, typically think annuities (which are an insurance product) are best for generating retirement income, while mutual fund companies, stock brokers, and many financial advisors are more inclined to advise you to invest your savings and make systematic withdrawals to cover your living expenses.

Many financial advisors can also be biased by their training or by the way they bill their clients. As a result, they may only present one or two methods of generating a retirement paycheck. It might be the way that makes them the most money, but that way might not be right for you. Or it might be the method they’re most comfortable with based on the limited training they received from their financial institution. The good news is, there are many financial advisors who have integrity and have received specialized training in developing retirement income; your job is to find these advisors and work with them.

Americans appreciate choices, and that’s particularly important when it comes to your retirement security. Ideally, your planner will present you with several distinct choices that will allow you to generate a retirement paycheck and will explain the pros and cons of each. So it’s crucial that you select a financial planner who has the necessary expertise – and your best interests at heart.

About Money for Life

I don’t sell annuities, insurance, or investments. What I do is prepare retirement education campaigns, deliver retirement planning workshops, and write about retirement planning strategies, including a thrice-weekly column for CBS MoneyWatch. My recommendations aren’t influenced by how I make my money, which enables me to give you an unbiased perspective on the pros and cons of each of the different ways to generate retirement income. I use my training as an actuary and my 35-plus years of experience helping employers design and
manage their retirement programs to provide you with the information you need to make smart decisions regarding your retirement income.

To help you more easily understand what your options are, I’ve organized this book into two parts. Part One covers just the basics on generating retirement income. It summarizes the three primary methods of generating retirement income and provides a framework for making decisions that balance the goals that are relevant to your circumstances. This section gets right to the point and details my five favorite solutions for generating a retirement paycheck.

Part Two is a resource section that goes into more detail on the three primary methods and their varieties, as well as on issues such as taxes, insurance company guarantees, and investing strategies. If you want to learn more about any of the topics covered in Part One or if you’d like to refine your retirement income strategies, you can dig into Part Two to find the information you need there. Or you can choose to skip Part Two and leave these issues to your financial advisor or tax accountant.

Some of you will read this book and other materials on generating a retirement paycheck and will be able to make decisions on your own to craft an income-generating strategy that works for you. If that’s the case, more power to you!

Others may feel more comfortable hiring a financial professional to help them with these important decisions. If this sounds like you, then you’ll appreciate the information I’ve included in Part One on choosing a financial professional. This information will not only help you select the most appropriate financial advisor, but it will also provide you with the information you need to have an informed conversation with your advisor, so that together, you can choose the strategies that work best for you.

One thing this book won’t do is answer the many other important questions you’ll need to ask yourself when planning for your retirement, including:

- when to start drawing your Social Security benefits,
- how to protect yourself from potentially ruinous bills for medical or long-term care expenses,
- how to best deploy your home equity,
- where to live during retirement,
- whether you’ll need to work after you retire from your current job,
- what to do with your time,
• how to remain healthy to help minimize your medical and long-term care expenses and really get the most out of your later years.

There are many other books that offer strategies and ideas for addressing these decisions, including my recent book, *Recession-Proof Your Retirement Years: Simple Retirement Planning Strategies That Work Through Thick or Thin*. You can also learn more about these topics by reading my free, online retirement planning guide, *Money for Life*. These resources present a holistic view of retirement planning on a variety of issues and will help you manage your retirement security. There’s also a resource list at the back of this book with many helpful references.

Learning how to generate retirement income from your retirement savings isn’t rocket science, but there are enough details that this topic deserves its own book. I sincerely believe that anybody who makes the effort can learn enough to make informed decisions. I’ve explained things carefully and clearly, and I’ve used simple descriptions, charts, and illustrations to help you understand this important subject.

It will take many hours of your time, however, to read and really understand the strategies in this book and to do your own research about the products and services that best meet your specific goals. But don’t let the amount of time or effort you’ll need to put in dissuade you from starting. You’re setting up your financial security for the next 20 years or more, and it’s going to take some time and patience to do the job right.

Remember, this is one of the most important financial decisions you’ll make in your entire life. For this reason, I’d suggest that you include your spouse or partner in this effort, so that he or she has input into your plans and can continue them if they should survive you.

In the long run, the time you spend now will be well worth the effort. If you’re ready, let’s get started.

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1 Actuaries are professionals who measure the risks of important but unpredictable life events – risks such as death, serious illness, accidents, and outliving your money during retirement (living too long is considered a risk!). We design financial programs to mitigate these risks, such as life insurance, medical insurance, pension plans, and 401(k) plans. As part of our training, we study the mathematical chances of these life events happening, along with the types of investments and financial products and services that will protect individuals from the adverse consequences of these events. We’ve been called the “architects of financial security.”
Money for Life

Turn Your IRA and 401(k) Into a Lifetime Retirement Paycheck

“If you don’t have a traditional pension and you don’t want to outlive your assets, put Money for Life on your “must read” list. Steve Vernon’s book will help you learn how to convert the assets in your various retirement accounts into a paycheck — into money for life.”

ROBERT POWELL, editor of MarketWatch’s Retirement Weekly

“The decline of traditional pensions and the reliance on IRAs and 401(k) accounts means that growing numbers of Americans will face a major challenge receiving enough income in retirement. Steve Vernon offers solutions in this book, with sensible, specific advice on a range of ways to pay yourself in retirement.”

MARK MILLER, retirement columnist and author of The Hard Times Guide to Retirement Security

Money for Life addresses the concerns of a wide range of people who are planning their retirement and hoping to create a retirement income that lasts for life. Part One of this valuable guidebook outlines specific action steps and describes the various retirement income generators in an easy-to-understand manner, using charts, illustrations, and examples. It also introduces the Money for LIFE™ retirement income rating system to help you choose the solution that works best for you. Part Two serves as a resource for readers who want more details on the methods for generating a retirement income and on specific retirement tax and insurance issues.

Steve Vernon, F.S.A., provides unbiased, trusted guidance on retirement planning through his regular blog column for CBS MoneyWatch and his four previously published books. For more than 35 years, he’s helped Fortune 1000 employers design and manage their retirement programs. As president of Rest-of-Life Communications, Steve delivers retirement planning workshops and conducts financial education campaigns. He has spoken in front of hundreds of audiences, and is widely interviewed in print and broadcast media.

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