Cracking the Nest Egg:

How Most Retirees Turn Portfolios into Cash Flow and How They Can Do It Better

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The Decumulation Mystery

- How do portfolios become income?
- Do they?
- Most neglected part of planning
- Little is known
- J.P. Morgan Asset Management study

Most Follow the IRS

- Wait until RMD age
- 84% take only the RMD amount
- Less wealthy more likely to wait to withdraw
- Means on automatic pilot, passive

Disadvantages of RMD Strategy

- Means not focusing on goals
- Ignoring personal situation
- Doesn’t match real spending
- Tax inefficient
- Ignores fluctuations in markets, interest rates, inflation
- Likely take too much or too little

Ignores Legacy Planning

- **Doesn’t reflect SECURE Act**
- **Least efficient way to leave assets**
- **Means don’t reposition assets**
- **Leaves heirs with lower after-tax amount**

Spending Influenced by Income

- Study says spending spending, income highly correlated
- Can manage, plan income or let income dictate spending
- Real spending tends to decline over time
- Regular income means more spending

Turn Wealth into Income

- Decide on desired standard of living
- Decide any legacy goals
- Estimate life expectancy
- Make market, inflation assumptions
- Evaluate risk profile/style
- Consider lifetime spending model

4 Retirement Income Strategies

- **Total return**
- **Risk wrap**
- **Time segmentation**
- **Protected income**

Total Return

- Most common among professionals
- 4% rule and its variations
- Depends much on stock market
- Great in bull market
- Sequence of return risk
- Might not want to worry about markets
- Also known as systematic withdrawal

Risk Wrap

- Deferred annuities with income floor
- Variable annuities, indexed annuities
- Potential income increase
- But also an income floor
- Can be complicated
- Need to determine costs

Time Segmentation

- The Buckets Strategy
- Determine when money needed
- Invest based on time frame
- Taking market, interest rate risk
- Is it different than total return?

Protected Income

- Guaranteed lifetime income
- Immediate or deferred income annuities
- Income guaranteed for life
- Income is fixed; inflation risk
- Miss out on market opportunities

How to Choose

- Don't need to choose one
- Key trade offs:
  - Probability/potential vs. safety first
  - Flexibility vs. commitment

A Blended Example

- **Guaranteed income for basic expenses**
- **Total Return for other expenses, legacy**
- **Can add life insurance for legacy**
- **Risk wrap is unified blended strategy**

Enhance by Reducing Risk

- **Maximize Social Security**
- **Minimize out-of-pocket medical costs**
- **Tax-wise investing**
- **Long-term care plan**
- **Plan for home equity**
- **Plan for the solo years**

Beware the First Years

- Sequence of return risk
  - Conserative spending
  - Flexible spending
  - Portfolio management
  - Buffer assets
- Plan for the solo years