Developing a Retirement Distribution Strategy

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As you approach retirement, your attention will shift from accumulation of assets to discussing ways in which those assets can be converted into a stream of income to last throughout your lifetime.

Until this time, financial planners have worked diligently to accumulate as much as possible to fund the retirement years. Many strategies attempt to maximize return while reducing risk.

As we shift into income planning, the tools of our accumulation strategies may no longer serve you well. Dollar cost averaging into wealth can be beneficial for growing assets, but dollar cost averaging into income may have the opposite effect on your portfolio. Having to sell more shares for the same dollar amount of income because the market is low is not beneficial. Investing for growth is still important, however, due to the low rate of return on many investments designed for safety. Suddenly the risk of losing money due to inflation becomes a reality as investors avoid market risk.

In the NFL, the term "Red Zone" refers to that portion of the field between the 20 yard line and the goal line. For future retirees, this term has been redefined and popularized to mean those five years prior to retirement and five years after your retirement date. Your performance when you are in this “Red Zone” will largely dictate the ability of your investment resources to carry you through your retirement in the desired lifestyle.

Retirement planning is all about managing risk: inflation, market, and/or longevity risks. Many investors make a potential mistake by moving their assets into “safety nets,” which can result in very low returns. Alternatively, continuing to invest aggressively might reduce retirement savings greatly by exposure to market risk from which the investor lacks the time to recover. A market loss during this critical “Red Zone” time period can wipe out many years of potential income in a very short time.

During retirement, greater attention needs to be paid to those aspects of investment that have a negative effect on your rate of return. Reducing investment costs and developing a more adaptive portfolio are just two examples.

There are many financial tools designed for lifetime income strategies, and it is critical that we examine these tools from the perspective of reducing risk while maintaining the necessary level of income. Investors are now writing their own “corporate pensions.” Your need to invest has the same basis of motivation our grandfathers had for sticking with a single company for 30 years to secure that lifetime income. Now, however, your “pension” doesn't come with a corporate watch, just a ticking longevity clock!

As distribution specialists, our focus is on efficient, lower cost investments geared toward risk sharing, security of principal and plan reliability.

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