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Your Retirement in Focus

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What's Your Retirement Income Strategy?

If you are nearing retirement, you need to think carefully about how you can make your savings last throughout your retirement. A key element is deciding how you plan to withdraw money from your savings for living expenses. What follows are several strategies that retirees use. The right strategy for you, however, will depend on your unique circumstances and goals.

Relying on Dividends and Interest

Under this strategy, you invest your savings and live on the investment income your savings generate in the form of interest and dividends. Since you leave your principal intact, you won't run out of money. Moreover, this approach gives you the potential to grow your investment portfolio while providing you with a stream of retirement income. The drawback, however, is that the stream can easily turn into a trickle. The amount of income you receive may vary from year to year since it depends on interest rates and dividend yields. The Federal Reserve's low interest rate policy has meant that many individuals have earned miniscule interest rates on their fixed income investments for most of this decade.

Withdrawing Set Amounts from Principal

Making carefully planned annual or monthly withdrawals, either a percentage or a fixed-dollar withdrawal, is another common strategy that retirees use. It can provide a more predictable and higher level of income than relying solely on investment income. A drawback to this strategy is that you may outlive your financial resources.

Buying an Annuity

An annuity* can provide you with guaranteed, regular payments for your lifetime, helping to protect against longevity risk. However, once you buy that annuity, you can't access the assets you invested in it, and opportunities to leave a legacy are limited.

The best way to identify the strategy or combination of strategies appropriate for your situation is to consult a financial planning professional to develop a retirement income plan and take the guess work out of income planning.

* An annuity may impose charges, including but not limited to surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, and feature charges, that can reduce the value of your account and the return on your investment. You will have to pay federal income tax on any earnings you withdraw from the annuity during retirement or before. Payments and guarantees are subject to the claims-paying ability of the issuing insurance company, and the underlying investment options are subject to market risk may lose value.