6 Steps to Build Your Retirement Income Strategy

For years, you've been putting money away in your retirement fund, looking forward to the day when you can say goodbye to work and enjoy your golden years. But just having a retirement nest egg isn't enough – you also need a retirement income strategy.

A retirement income strategy is a plan for how and when you will access your assets in a way that maximizes their value while minimizing taxes and other expenses, like early withdrawal penalties. In other words, what is the best way to manage your accumulated savings so that they last for the years ahead? There are several things to keep in mind as you develop your retirement income strategy.

- **How long will you live?** Most of us don't have the answer to this, but experts suggest planning for at least 10-20 years after retirement. It's also expected that costs for healthcare and living expenses will continue to rise during this time.
- **Will you work?** Many retirees enjoy part-time work or second careers; the income from which can factor into your strategy, as well.

Here are six steps to help you build a strategy for a fulfilling and affordable retirement:

1. Define your income plan.

Make sure you have a plan for how to live off your retirement nest egg and other income. It's important to plan how you will withdraw funds once you reach retirement; talk to your financial adviser about how to minimize taxes from these withdrawals.

You might also consider downsizing – the more you can lower your daily living expenses, like housing, utilities and transportation, the longer your nest egg will last.

2. Realign your portfolio.

Now may be the time to go from an aggressive growth strategy to a conservative wealth preservation strategy. Work with your financial adviser to develop a plan that works for your retirement risk tolerance and long-term plan.

3. Draw down your 401(k).

Once you retire or leave the company where your 401(k) is located, you have several options for accessing your money. For many, the smartest move may be to roll your balance over to a traditional IRA, where the money grows tax-deferred until you are taxed when you take money out.

If you decide instead to take a lump sum distribution, you could end up paying a hefty amount in taxes, since it will be counted as ordinary income. And if you're under 59½, you could also pay a 10% penalty for early withdrawal.

4. Decide when to start taking your Social Security payments.

While the earliest you can take a Social Security payment is 62, if you start at "full retirement age," which is currently 66 (but differs based on when you were born), you'll get your full payment based on your highest 35 years of earnings. If you take it before full retirement age, your payments will be reduced.

5. Satisfy your Required Minimum Distribution (RMD) requirements.

Under the SECURE Act, the Required Beginning Date has been raised to the year after turning age 72 for anyone turning 70 ½ in 2020 or later. Federal law requires you to withdraw a minimum amount from most retirement savings accounts on an annual basis after this age or face severe tax penalties. This includes withdrawals from all forms of IRAs except Roth IRAs, which do not have RMDs during the owner's lifetime.

6. Consider wealth transfer.

Roth IRAs can be a useful vehicle for wealth transfer in an estate plan, helping you continue to build wealth for your beneficiaries without income tax or having to take out RMDs during your lifetime.

With the average life expectancy in America of 79 years, it's essential to build a retirement income strategy that will limit the taxes you have to pay and allow you to live comfortably. As always, be sure to consult with a financial or tax adviser to determine the best strategy that fits your needs – today and in the years to come.

Whatever stage of life's journey you're in, Millennium Trust is here to provide the educational resources and tools to help you stay on track with your financial security.

To learn more, visit the Millennium Trust **Knowledge Center.**

MTC 322
01/20