HOW TO RETIRE

Long gone are the days of retiring with a large pension and not having to worry about what your investments are doing. Today it's very different. Historically companies have provided pension plans that give their employees a defined benefit for the rest of their lives after they transition out of the workforce. Now the responsibility has shifted to the employee. With inflation on the rise and a ten-year bull market on the move, there has to be some worry on the table.

So how can you create a retirement income plan that's relevant?
Here's the step-by-step process that we take our clients through:

1

What Do You Want?

You have to define what it is you want out of retirement. How much income do you want to take? If you're still working you have the ability to save more to get you where you truly want. I have lots of clients who will tell me a very low number because they don't know if they can take the big number they really want to take in income. Many times they're pleasantly surprised when I show them what they can truly take in income.

2

Determine Guaranteed Income

Factoring in the guaranteed income sources like Social Security. You can go to https://www.ssa.gov/benefits/retirement/estimator.html to estimate your monthly income benefit at different ages. If there is a pension we look at lump sum payout options or monthly payout options. I have a video link here if you want to know how we make the decision to take a monthly income versus the lump sum. https://www.youtube.com/watch?v=rzEF31CPRmY Once the monthly guaranteed income sources are factored out of the total annual income goal now we have our gap. Now it's time to go to the marketplace to see what her options are as far as filling that monthly income gap.

3

Liquid Asset Review

In the liquid asset review, we go over your current retirement assets and liquid financial assets like bank accounts or brokerage accounts. Once we know the balance of all these accounts we look at the flexibility of what they offer today. If you're still working at a company you may have a large 401(k) balance however we may not be able to roll that money over until you turn 59 1/2 or separate service from that company. You may have some old 401(k)s or IRAs that we may be able to roll into a new RA that will give us better investment options, lower fees, and less risk.

4

The Math

Once we have defined what you want to take in income in factor out the monthly guaranteed income sources like Social Security or pension we are then able to get the gap number. This is the number that we need to be able to fill privately from your other investments. Let me take you through an example. Let's say you're 60 and you want $60,000 of income and you plan to work for five more years. Let's say we estimated your Social Security to be $20,000 per year at 65. That means that we have a $40,000 income gap. So how much do we need saved to be able to draw $40,000 a year from the time you're 65 for the rest of your life? The answer is simple: take $40,000 and multiply it by 20. When we do that we come to $800,000. If we generated a 5% return on $800,000 we withdraw $40,000 a year in interest income without ever touching the lump sum. Once we know the big number that we need saved we can then look at your retirement accounts and other liquid financial assets. Let's say you're at 500,000 between your 401(k), other IRAs, and bank account. The next thing that we need to do is figure out how to position these assets to make your retirement dream a for sure thing.

5

Investment Selection

You might think that $300,000 is a long way off for five years. And you would be somewhat correct. There are a lot of considerations that we need to make whenever we're selecting the investments however it can be easier than you think. We don't want to be so aggressive with the money that we run the risk of taking a large loss in the stock market. We also don't want to be so safe that we go to our local bank and open up an IRA and put all the money in CDs that would only hold 1% annually. So where is the middle ground? It's found in participating in the upside of the market and eliminating the chance of ever participating in a recession again. You can position your money to make 10% returns without being subject to any of the risks. And at a 10% ROI with no risk and five years to continue to make contributions to your retirement account. That $300,000 gap just got a whole lot easier to cover. If you wanna know more about what we do at Big Money Management and how we help our clients come up with solutions to these problems every single day, book a five-minute meeting here. www.bigmoneymeeting.com

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