Retirement Planning, Part 15
Converting Assets for Lifetime Income
By Gary Case

There are numerous methods that can be used to generate lifetime income from an investment portfolio. In most cases, investment income augments Social Security. In some cases, although more rare now than in the past, pension income from an employer also provides a base of income for retirees. In a future column, I will discuss methods designed to maximize pension benefits.

Drawing interest generated by a portfolio works if there is sufficient income generated to meet retirement income goals. A common strategy for creating a fixed schedule of income payments is to create a bond or certificate of deposit (CD) “ladder.” With respect to a bond ladder, this entails investing in several bonds which provide regular income streams for specific periods of time—typically five to ten years in the future. The maturity dates can be staggered to lessen the impact interest rate movements can have on the principal value of the bonds. By assembling a mini-portfolio of bonds retirees may be able to “lock in” a predictable income stream for a targeted period of time and then reassess income needs at the end of the period. Because a bond ladder can provide a known amount if income for a number of years forward, using this strategy may also enable retirees to segregate another pool of assets for investment in growth-oriented investments, relatively free from concerns about day-to-day stock market fluctuations. This strategy trades off any prospect for significant asset growth in exchange for a time-certain income stream. It does, however, offer some flexibility because the individual bonds underlying “ladders” are generally quite liquid.

More conservative investors can create ladders using FDIC-insured CDs, which generally pay higher interest than regular bank savings accounts, but offer less flexibility since most impose some sort of penalty if they are cashed in prior to maturity.

Real estate assets such as primary or vacation homes and investment properties can be used in a variety of ways to provide retirement income—through rental income, from investment of the proceeds form property sales, or through the use of a “reverse mortgage” (a loan that allows an owner to convert the equity value of a home into a source of income). Each of these methods for converting real estate into a source of funds for retirement has certain advantages, risks and costs which should be reviewed with the help of a trusted advisor.

The next column in this series will discuss additional conversion techniques, including systematic withdrawal plans and annuities. Stay tuned!

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