Retirement Planning, Part 16
Converting Assets for Lifetime Income
By Gary Case

In my last column I discussed laddering bonds and/or certificates of deposit to provide a predicable income stream during retirement. I also touched briefly on several techniques for squeezing income out of real estate. All are viable income producing techniques, and all involve trade-offs between income and growth of assets.

Two additional options for converting financial assets into income sources of lifetime income include systematic withdrawal plans (SWPs) and annuities. Retirees who have sufficient financial assets relative to their income needs—and who want to retain flexibility—may prefer to rely solely on these assets to fund retirement expenses, living off the dividends and interest these assets may generate. Alternatively, they may wish to set up a SWP to liquidate a portion of their holdings at periodic intervals.

While a SWP strategy can create long-term income streams by regularly liquidating a portion of a diversified portfolio, the value of such an asset pool can vary with market conditions (more on this next in my next column).

People who wish to buttress their retirement investments with more predictable sources of income may want to consider income annuities. Annuities can provide income for a lifetime or, if so desired, shorter periods of time. The trade-off is that they generally do not offer as much flexibility as a SWP strategy because assets are converted at the beginning of the annuity period to fund income payments. A technique called partial annuitization has added increased flexibility to annuitization. Essentially, partial annuitization retains most of the flexibility of a SWP while providing lifetime income. A trade-off of annuitization is the potential to reduce bequests to heirs if an annuitant dies early in the annuitization process.

The impact of inflation should also be weighed when deciding the type of annuity to purchase (bond and CD ladders do not offset inflation since the income streams are level). A variable income annuity, which adjusts payments to an underlying portfolio, may provide some protection against the loss of purchasing power brought on by inflation, while fixed annuity payments resemble bond and CD income streams—although annuity income streams may offer lifetime income.

Annuities, as with other types of insurance, have costs that help fund income payments. For many people this additional cost may be worth the certainty of knowing that they are adding another predicable source of income to help cover essential expenses throughout their retirement years. For more information on which types annuities may work for you, contact your financial advisor. Next time I'll discuss systematic withdrawal plans in more depth.

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