Retirement Planning, Part 17
Social Security, Pensions, and Systematic Withdrawal Plans
By Gary Case

This column will focus on the role social security, pensions, and systematic withdrawal plans (SWPs) play in developing a retirement income distribution plan and some of the trade-offs they embody in terms of certainty, possibility for growth, and flexibility.

Social security provides guaranteed income for life. It is also adjusted automatically for inflation, though its inflation measure may understate rising health care costs for retirees. The timing of formal retirement locks the retiree into a set pattern of payouts for life. The Congressional Budget Office believes Social Security will be able to pay out full benefits (using current tax rates) through 2052, and the Social Security Administration estimates that Social Security will continue to generate an annual surplus (i.e., taxes collected in excess of benefits paid out) until the year 2018, when the annual benefits paid will exceed taxes collected. There is no question that Social Security will have to change in order to meet the needs of an aging society.

Pension plans also provide predictable lifetime income. Some pensions offer the possibility of increased future payments to compensate for inflation. Like Social Security, there is little or no flexibility once a pension plan withdrawal is initiated and benefits will, in most cases, be reduced or eliminated on the death of the covered spouse. Unfortunately, an increasing number of pensions are reducing retirees payments due to business hardships faced by the sponsoring company.

Systematic withdrawal plans are strategies for drawing income from a given pool of investments over specific periods or a lifetime. Calculations on how much income can be safely withdrawn from a given asset pool should be made using Monte Carlo (probability) simulations of that pool's range of likely returns. Long-term average returns are not a good predictor of short-term market fluctuations which could dramatically affect a retiree's success at generating predictable lifetime income.

While there are many ways to structure a SWP, all retirement portfolios should include investments that have the potential to protect against the effects of inflation—in other words, some exposure to equity (stocks, real estate, and other "owned" assets). Mutual funds and stocks are highly liquid, which makes them attractive for flexibility. SWP plans can help bridge the gap in income coverage for essential expenses, or to help generate income used for discretionary spending during retirement.

Your financial planner can assist you in evaluating how systematic withdrawal plans fit into your situation. Next column—funding long-term care during retirement.

Gary Case, CFP™, Cornerstone Financial Planning, *is a registered representative and investment advisor representative of Lincoln Financial Advisors Corp., a broker/dealer (member SIPC) and registered investment advisor, 917 2nd Street So., Nampa, 466-1971, offering insurance through Lincoln Financial Advisors, Limited Liability Company, and other fine companies. This information should not be construed as legal or tax advice. You may want to consult a tax advisor regarding this information as it relates to your personal circumstances*