Incise Insight

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Retirement Income Distribution Planning (RIDP) In 2007 the Society of Financial Service Professionals identified 4 methods of producing retirement income. This was done in a video titled Managing Your Reasources for Income in Retirement: You're in It for Life.

Crediting their work, I wrote a workshop of my own on the 4 methods. It ended up being adopted by a major insurance company and later I utilized the content to begin teaching at the University of Denver through their graduate tax program (now CPE4U). Since that time I have added two more methods and I have taught on the subject for roughly ten years.

The six methods are:

1) Immediate Annuitization
2) The Withdrawal Method
3) Withdrawal with Lifetime Protector
4) Time – Segmented
5) Systematic Spend Down
6) Combinations

Although assets are exchanged for income, the first method can produce the highest level of income on a guaranteed basis. And, when non qualified funds are used, the retiree can take advantage of the "exclusion ratio" in order to reduce taxes.

The second method is the most popular. Logically, it makes sense. Approaching retirement income planning using this method as a stand-alone method is inefficient. It, however, is where most of the research for years was conducted. Thank goodness we have gotten away from that. It is where the 4% rule started, covered in the October newsletter. It is entirely dependent on rates of return and subjects the retiree to Sequence of Return risk, perhaps one of the three greatest risks for any retiree. To offset this risk, a retiree could utilize a volatility buffer, but this solution is seldom taught by advisors/firms who focus on managing money.

I've heard the 3rd method referred to as the Grangard Strategy (named after a CPA who wrote a book on the subject), the Bucket and Ladder or Age-Banded Approach. It is an approach which incorporates a type of investing known as liability-based investing. Specific assets are chosen to match obligations. A college endowment fund, for example, could easily apply this approach to meet its annual commitments. It is fundamentally different than an asset allocation approach. Another good way to describe it is an "asset dedication" approach. Assets are dedicated so their maturity corresponds with the date they are needed to meet income needs.

Numbers 5 and 1 (with non-qualified assets) can be utilized effectively to impact marginal income tax rates, the provisional income test (which determines if your Social Security will be taxed) and the effect on other expenses such as Medicare premium rates.

Every method has advantages and disadvantages, far more than can be covered in a one page newsletter. Because there are plusses and minuses with each one, the real key is learning how to put them together in the most efficient manner to accomplish what you want/need to accomplish. This is why I feel identifying number 6 is critical. An entire book could be written on the benefits of combining techniques. That is why I identify combinations as a method. The importance of combinations needs to be stressed as its own method.

In addition to these methods, a retiree should have the flexiblity to take funds from non-qualified, qualified and ROTH assets. The order and amount from each of these can impact the length of time a portfolio will support income in retirement due to the impact on after-tax income. Always taking advantage of a tax deduction today, when investing money for retirement, may not always put you in the best long term position.

If you are in your 20's, 30's, or 40's and think none of this applies to you. I've got news for you. Getting yourself in the best position long term for having these various income planning options will put you in the most favorable position at retirement. If you think your 401(k) providor at work is concerned about you understanding these options, you're kidding yourself.

If you would like to discuss any of this further, let me know.

Business Owners: If your business owns life insurance on an individual, the IRS requires you to complete form 8925 annually. This form is known as the 'Notice of Consent Form'. It should have first been completed on the day of or before applying for insurance on an individual. Signing of this form is necessary for the death benefit to be received income tax free. If there is a reason to discuss, give me a call.

FYI In 2020 TSP (The Federal Thrift Savings Plan) "The government's 401(k) plan" will begin investing in an index (MSCI) which includes Chinese companies. The index includes companies who manufacture weapons which could be used against the U.S.

Dan Flanscha was just awarded his RICP® (Retirement Income Certified Professional) designation through the American College.

The RICP® designation provides comprehensive instruction on building integrated and comprehensive retirement income plans. A key focus is understanding, choosing, and executing a strategy for generating sustainable income from available resources—whether that means using systematic withdrawals from a portfolio, building an income floor with bonds or annuities, or using a bucket strategy.

The program, developed by more than 45 of the nation's top retirement planning experts, provides students with best practices in areas including:

- **Social Security claiming**
- **Evaluating and addressing risks faced in retirement**
- **Choosing distributions from employer sponsored plans**
- **Medicare and other health insurance choices**
- **Choosing appropriate housing**
- **Income tax and legacy planning**
- **Planning for long-term care needs**
- **Medicare and other health insurance choices**

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The content here is not intended to provide individual, family, or business financial advice. True financial advice cannot be provided without a deep understanding of each individual situation, which can only be accomplished through an in-depth analysis which involves a two-way dialogue. It is important that individuals take steps to meet with qualified professionals who take a macro-economic approach, not merely a "black box" financial planning approach to your finances including, but not limited to, risk, insurance, investments, or tax.