

# Transitioning Into Retirement

By Robert E. Caplan, MBA, CFA

For most investors, the focus of their financial education has been on how to accumulate wealth and properly save for their retirement years. Then, when nearing retirement, they soon realize that they need to pursue a “graduate degree” in how to effectively transition into retirement.

This transition is not about which post-retirement hobby you should explore. We’re talking about the financial shift from accumulating to preserving wealth. When considering your retirement financial planning, there are four key priorities that will impact your decisions.

## *Desired Growth*

During your high earning years, the majority of growth of your portfolio came from accumulation and compound earnings over the long-term. Now you must balance between maintaining enough growth to keep pace with inflation, without over exposing your portfolio to market fluctuations.

## *Need for Guaranteed Income*

Funds needed to cover your essential living expenses. The balance here is between less flexibility and higher costs.

## *Ability for Flexibility*

Impacts the access and control of your money. Trade-offs are between predictable, guaranteed income and variable income.

## *Preservation of Principal*

How much you can preserve depends on your situation. You may be able to sustain your lifestyle by utilizing interest and earnings along or you might find it necessary to draw down the principal.



Depending on these four key factors, there are several income strategy options you can utilize. Your first, short-term approach might employ a *bridge strategy*, which would allow you to supplement your income while you wait for the start of social security benefits or a pension. Afterwards, other options include a *systematic withdrawal strategy* which sets up scheduled withdrawals from your investment earnings as well as the principal. Larger portfolios may enable you to adopt an *interest and dividends only strategy* that preserves your principal.

Which ever approach suits your needs the best, the most important strategy is to plan ahead. Don’t wait until retirement is upon you to start thinking about your transition. If you’d like more information, please feel free to call or email us.



# Converting Assets to Cash Flow in Retirement

By Robert E. Caplan, MBA, CFA

Much is written about planning for retirement and the steps necessary to insure that your portfolio will adequately provide for you in your later years. Prior to retirement, the goal is to accumulate wealth. Upon retirement, the goal usually changes to protection of capital and maximizing cash flow.

The biggest concern upon retirement is the chance that you will outlive your savings, also known as longevity risk. Longevity risk factors include: an increasing average life expectancy (currently at 77.6 years), rapidly increasing healthcare costs, and greater than expected inflation.

Longevity risk can be minimized through two primary factors. The first factor is withdrawal rate. Typical withdrawal rates are in the 4 to 5 percent range of total assets. The lower the rate at which an investor makes withdrawals, the lower the longevity risk.

The second factor is asset allocation, which can be adjusted in order to minimize longevity risk. Finding the right mix of equities to maintain growth, as well as generating income through bonds, is an important balancing act. Each investor must find that balance that is right for their unique situation.

Although we generally recommend that clients take no more than 5 percent of their portfolio per year, each investor's needs are different. Factors unique to each investor – such as cash flow required, portfolio rate of return and actual withdrawal rate – will vary from year to year. As always, we strongly recommend that you continually review your portfolio.



**Robert Caplan, MBA, CFA**  
*Partner*

Mr. Caplan's expertise includes investment strategies for portfolios with highly appreciated securities, security analysis and asset management. He joined FMA Advisory, Inc. in 1994 and currently specializes in investment analysis and asset management.