Planning your retirement paycheck

BY CRAIG S. DONNER, DC

What could be more comforting than knowing you will have a dependable, consistent paycheck when you retire? You can give yourself the opportunity to enjoy an attractive retirement income stream, month after month.

Here are some steps you can take to help you plan to optimize your retirement paycheck.

1 Identify the source(s) of your retirement paycheck. You will most likely receive income from several sources including Social Security, a pension or 401(k), an IRA, a taxable investment account or annuity.

2 Carefully time your retirement paycheck. It may result in a larger check and you may be able to retire sooner than you think.

3 Estimate the size of retirement paycheck you will need. It is important to do some cash-flow projections. These will allow you to match the size of your retirement paycheck to your expenses. It also helps to determine the frequency with which you should take your retirement paycheck, such as monthly or quarterly.

4 Pinpoint how much you can afford to pay yourself. The goal here is to pace your paychecks to avoid running short of money during retirement. Experts do not agree on one "safe" withdrawal rate. However, they do agree that your annual withdrawal rate generally should not exceed your average annual earnings rate.

5 Target an initial asset allocation. The factors discussed above, such as the source of your retirement paycheck and your cash-flow requirements will influence your initial asset allocation. A general recommendation is to hold three to four years' worth of retirement paychecks in cash and cash equivalents.

6 Determine how to draw your paycheck. You can draw your paycheck from taxable accounts, tax-deferred accounts or a mix of both. The rule of thumb is to spend down your taxable accounts first. This permits your tax-deferred accounts to continue their tax-deferred or tax-free (as with Roth IRAs) growth. ◆

Dr.Craig S. Donner, associate vice president of investments for Raymond James & Associates, is a 1990 graduate of Life Chiropractic College and was in a private practice until 1997, when he decided to focus his career on wealth management, asset protection and tax minimization strategies He can be contacted at 800-261-1035 or by e-mail at Craig.Donner@ RaymondJames.com