Lifescapes

Retirement income planning: 5 actions to consider

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Following these guidelines could help you maintain a steady flow of income in your nonworking years.

Retirement can be an exciting next chapter in your life, offering new beginnings and opportunities. Coming up with a retirement income plan can help you financially prepare for the long and fulfilling retirement you want. Here are some considerations when it comes to retirement income planning.

Assess your needs and wants

Start by creating a personalized estimate to help determine how much income you will need in retirement. That estimate should be based on:

- **Fixed expenses.** These are basic, ongoing expenses including food, mortgage or rent payments, transportation, insurance premiums, health care costs, taxes, and other nondiscretionary living expenses.
- **Discretionary expenses.** These include entertainment, travel, recreation, charitable giving, and luxury items. Because these are deemed nonessential, you can potentially lower or postpone them during periods of market volatility or if your financial situation changes.

Identify your sources of income

Outline your anticipated sources of income with estimated dollar amounts. The income you receive during retirement can come from a variety of sources, including:

- Retirement savings, including 401(k), 403(b), and 457 plans
- Nonretirement savings, including brokerage accounts and savings accounts

- Social Security
- Traditional pension plans (defined benefit plans)
- Annuities
- Full- or part-time employment
- Real estate or other income-generating sources
- Inheritance

Check for an income gap

Once you've estimated your income in retirement, compare it to your expenses to see if there's a gap between the two totals. If you don't have enough money for your ideal retirement, you may want to consider revising the amount you're saving, your retirement goals, or both.

Plan a withdrawal strategy

Have you ever heard of the 4% withdrawal strategy as outlined on Forbes.com?[1] To follow the 4% rule, investors withdraw no more than 4% of retirement savings and investments as income in the first year of retirement; in subsequent years, they adjust that percentage for inflation. That guidance does not necessarily fit everyone's financial situation, however.

One less rigid approach to potentially consider includes flexible withdrawals based on your portfolio's performance, your spending needs, and your lifestyle. Withdrawal strategies could include weighing short-term income needs, managing potential tax implications, and maintaining your portfolio allocation so it aligns with your long-term objectives.

Understand the tax implications

Conventional wisdom leans toward tapping into taxable accounts before tax-deferred ones. By starting with those accounts, your tax-deferred assets can potentially continue to grow on a tax-advantaged basis.

But that might not be the best approach depending on your situation. Consult with your tax advisor before assuming withdrawals from taxable accounts are your best first step.

Required minimum distributions (RMDs) can also have tax implications. These are withdrawals you must take from traditional, simplified employee pension plan (SEP) IRAs, Savings Incentive Match Plan for Employees (SIMPLE) IRAs, and employer-sponsored qualified retirement plans (such as 401(k)s and 403(b)s), and the amount you need to withdraw may impact your tax rate. Failure to take an RMD on time or in the right amount can result in an IRS 50% excise tax for every dollar under-distributed.

Another thing to consider is changes to the RMD age as outlined in Secure Act 2.0: The Consolidated Appropriations Act of 2023 included an update to the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. With this law, the RMD age increased to age 73 in 2023 and will increase to age 75 in 2033. If you turn age 72 in 2023, your RMD is not due until 2024.

Some next steps to consider:

Planning for income in retirement:

- Explore your vision for your non-working years.
- Identify your essential and discretionary expenses.
- Inventory potential sources of income in retirement.
- Identify and create a plan to help fill any income gaps

Managing income in retirement:

- Take RMDs on time and withdraw the correct amount to avoid the costly excise tax.
- Periodically review expenses and make the necessary adjustments to your spending and withdrawal strategies.
- Review your income and tax situations regularly with your financial and tax advisors.

1. "What Is The 4% Rule For Retirement Withdrawals?" Forbes, August 18, 2022, https://www.forbes.com/advisor/retirement/four-percent-rule-retirement/