5 More Faqs for Those Close to Retirement

This is an extra resource to go along with the original article:

3 Important FAQs About Generating Retirement Income

If you're getting close to retirement, you may have more pressing questions that need to be answered. Here are a few FAQs for those who are within 5 years or less of retiring.

1 How will my income change after retirement?

The closer you get to retirement, the more of a concern it may be to create a budget that fits your lifestyle. The typical school of thought says that you'll need around 75-80% of your current income after retirement, but it may be safer to assume you need at least 100%, if not more.

If you'll be retiring within a year, prepare a line-item budget that estimates all expenses and income sources, separated into two categories: essential and discretionary. Doing so will help you manage and monitor your expenses, and make adjustments more easily once you retire and know your actual cost of living.

2 Should I take my pension as a lump sum or take an annuity?

Many pensions offer a lump sum option or an annuity option that pays monthly income for life. Annuities offer more guaranteed income with fewer investment management decisions, but if you have a large pension, your benefits could be reduced if not properly managed and your fixed monthly amount won't keep pace with adjusted costs of living or inflation.

The pros of taking a lump sum include having access to money to do with as you please and the ability to generate the same amount of income that the annuity would provide, and retain control of the principal to pass along to heirs. On the other hand, lump sums are often spent more quickly, and if the money is improperly managed, invested poorly or otherwise spent, you may run out of money quickly.

Unless you already have a significant portion of your monthly income covered by guaranteed income sources, annuities are generally the best choice for retirees. It is difficult to recreate the low-risk, high payout ratio provided by most pensions.

3 Will I still pay taxes on my retirement income?

Many retirees do wind up paying taxes. Any income you withdraw from a 401(k) or traditional IRA is taxed as ordinary income (income from a Roth IRA, however, is not taxable). Income you withdraw from a pension plan is also taxable, as are capital gains from a taxable investment account. And while some people are not required to pay taxes on Social Security, those with additional sources of income are often taxed on their monthly benefits.

4 What should I know about required minimum distributions (RMDs)?

Your RMD is the amount you're required to withdraw from your Traditional, Rollover, SEP-, and/or SIMPLE IRAs every year after you've reached 70½. It's calculated annually, based on the value of your accounts at the end of the previous year and your life expectancy.

Not taking your required minimum distribution (RMD) can have certain tax implications. When you turn 70½, you have until April 1st of the following year to take your RMD. For subsequent years, you must take your RMD by December 31st each year. If you do not take a distribution, or withdraw less than required, you may have to pay a penalty equal to 50% of the amount not taken.

5 How do I protect my retirement investments in a bear market?

If you have retirement investments, but are worried about the changing market over the course of your retirement, consider opting for income generating strategies like cash flow investing, that rely on stocks and options that generate monthly income.

You should also set aside enough cash to cover your routine expenses for one year (if possible), minus what you expect from reliable non-portfolio sources of income, such as Social Security. Keep that money in a relatively safe place, such as a savings account, money market fund, or short-term certificate of deposit (CD).

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