Snider Advisors

# What to know about generating income from cash flow investing and other retirement best practices

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# What to Know about Determining Your Retirement Income

How much money will it take for you to thrive in retirement?

Unfortunately, most Americans cannot pinpoint exactly how much they'll need to live comfortably for the extent of their golden years. A recent report by Merrill Edge, found that "many Americans are unable to articulate their 'magic number,' and more than half of respondents didn't think they'll need more than $1 million."

But most retirees are nowhere near the $1 million mark.

Studies show that one out of every three Americans has absolutely nothing saved for retirement, 56% have less than $10,000 saved, and just 18% have $200,000 or more in retirement savings. The average 50-year-old has only around $60,000 saved.

Is this enough to truly live off of? What happens if you live longer than expected? What happens if Social Security doesn't pay out? How can you calculate your "magic number?"

If you're not sure how to calculate your retirement income, or you're worried about what you have saved (or not saved) for retirement thus far, here's what you need to know.

## Retirement Expenses

The first step to determining your overall quality of life in retirement is to figure out how much money you'll be spending each year on average. You'll most likely want to start with your current expenses and then add any extra variables you might experience in retirement.

You will want to calculate:

- Your current take-home pay (what gets deposited after all deductions)
- Any expenses that come out of your current paycheck that you would also have to pay out-of-pocket after retirement (health insurance, mortgage, etc.)
- Any extra expenses you might incur after retirement (additional healthcare needs, etc.)
- Any taxes that must be paid on retirement income (if applicable)
- Any extra expenses for any desired lifestyle changes (you want to travel more in retirement, or take up a new hobby, for example)
- Any extra expenses associated with big purchases that will need to be made in the next 10-20 years (major home repairs, housing changes, etc.)
- Minus any expenses that will decrease in retirement (gas money for long work commutes, etc.)
- Minus your contributions INTO retirement accounts, once you retire you no longer need to keep saving!

# Length of Retirement

It's not necessarily complicated to predict how much money you will need for bills each year, as you most likely already have a monthly or annual budget you follow closely. The real trick to determining your retirement costs is knowing how many years that income must last.

If you live longer than you estimated, you risk spending down your savings or relying solely on Social Security. According to the SSA's life expectancy calculator, the average 65-year-old man (born on January 1, 1951) has a life expectancy of 84.4 years, and the average woman 86.7.

But there are several other factors that can determine your lifespan, including:

- Your current health and any genetic or hereditary health conditions that may affect you in later years
- Activity levels in retirement (the risk of injury rises with activity levels, especially if you have been relatively sedentary before retirement)

- Behavior changes associated with a new lifestyle (travel, dietary changes, etc.)
- You want to make sure you don't outlive your money, so it's better to overestimate the amount of time you will live during retirement than to underestimate.
- Your ultimate goal should be to prepare for a long (and happy) life and make contingency plans to leave a legacy should you pass away sooner than expected.

# Sources of Income

Of course, if by now you realize that the total amount you will need to live on each year multiplied by the full extent of your life is more money than you have saved up, you may be panicking.

As is the case for many retirees, the amount of income you will need after retirement may exceed what your current nest egg is able to produce. If this is the case, you may also need to calculate other potential sources of income.

The first thing you will want to look at is your expected Social Security income. As of November 2016, the average Social Security check was $1,355 per month, which roughly translates into a little over $16,00 per year. While this will be a portion of your yearly income, it is by no means guaranteed, and it's certainly not something you would want to live off alone.

What other options are there for generating retirement income?

You do have the option to continue working even after retirement. Surveys show that 75% of Americans plan to work during retirement, with 62% stating that they had financial motivation to do so.

These jobs could include something fun, like babysitting, crafting or gardening, but you always run the risk of not generating enough consistent income unless you find more sustainable part-time work.

If working doesn't fit into your image of a perfect retirement, however, another option is to generate income through your portfolio. Cash flow investing, for example, allows you to live off the proceeds of your investments, generating paychecks that can last throughout your retirement.

In fact, the primary goal of the Snider Investment Method is to convert your retirement portfolio into cash flow so that when you are no longer able or no longer desire to work you will have the cash flow needed to replace your regular income.

This can be a particularly good option for retirees that already have a nest egg and plan to use Social Security funds, because it will allow you to do more with your money than just survive.

# Putting It Together

Calculating retirement costs isn't always easy, but it's usually best to err on the side of caution. Start by creating a budget based on your current expenses, and then estimate any additional costs you might face postretirement (and yes, it will be an estimate, but do your best).

You will also want to include any "dream funds" you may have that would go toward retirement activities like travel, purchasing a new home, or adding hobbies to your life.

Multiply your annual budget by a generous amount of time spent in retirement (plan for a long life!) and that will be how much you need to retire. Estimate any income you might receive from Social Security, and what's left will be the income you need to make.

If you don't plan to work during retirement, and you know your Social Security won't cover all your expenses (or that dream vacation), consider becoming a cash flow investor and maximizing your retirement income so that you can live the life you want after you hang up your hat.

# 7 Retirement Expenses You Might Not See Coming

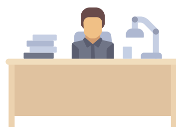
*This is an extra resource to go along with the original article:*

***What to Know About Determining Your Retirement Income***

You can't always predict the future. The best you can do is plan for what's expected and have a solid strategy to deal with the unexpected. With that in mind, here are a few unexpected expenses you may want to budget for just in case.

## 1 Early Retire

While not exactly an expense, early retirement can reduce your income and add to your overall financial burden. Though not everyone has the opportunity to retire early, and in fact many retirees are waiting until over 70 to retire, those who want to access Social Security earlier than 65 should expect their Social Security payments to be reduced. In many cases, early retirement is not a decision made by you, instead you may be forced into it by your employer.



## 2 Entertainment

"Most new retirees tend to overspend in their first year or two because there is so much out there to do," says Certified Financial Planner Harriet Veenker. The average American spends 5.6% of their annual income on entertainment, including pets, hobbies and other leisurely activities. Not to mention that hobbies can range from a few hundred dollars a year (reading, gardening, etc.) to five or even six digits (sailing, travel, etc.), failing to prepare accordingly will cost you.

## 3 Housing

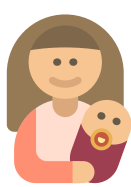
You may already have a home you plan to spend the remainder of your time in, but some may find themselves moving at some point, whether for pleasure or necessity. Many retirees also fail to plan for the end of their retirement, where that move may be to an assisted care facility or specific retirement home. In 2016, a private room in a retirement home cost an average of $253 daily, or more than $92,000 annually, with semi-private rooms only slightly cheaper at $82,125.

## 4 Divorce

While divorce isn't something anyone plans for, according to a study by the Society of Actuaries, 3% of retirees faced an unexpected divorce. The average cost of a litigated divorce is around $15,000, though that number can rise significantly depending on extenuating circumstances.

## 5 Providing Support for Others

Even if you incur no unexpected bills, your spouse, children, or even grandchildren may have an unexpected need that arises to which you may want to contribute. Things like births, marriages, deaths, and even family medical emergencies all have associated costs, and the more unexpected the event, the more expensive it tends to be.



## 6 Fraud and Scams

No one assumes they'll be the victims of a fraud, but there are several scam artists out there that specifically target retirees, and they're well known because their scams work. This isn't to say you should plan on being ripped off, but know that there are people out there who would seek to part you from your money and it's best to plan ahead just in case.

## 7 Poor Investments

If you do have investments that you hope to see you through retirement, it's best to ensure that your investment strategy is one that can generate consistent, low-risk cash. Putting money into a high-risk or undiversified portfolio may hurt your wallet later on if those investments don't pay out. Consider opting for a cash flow investment strategy that will provide predictable income throughout your retirement.

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# How Much Social Security Will Really Cover

Every day, 10,000 Baby Boomers turn 65, the average age of retirement in America. Unfortunately, not all of them are able to retire. The biggest issue faced by retiring Boomers is money: they didn't save enough of it preretirement and/or Social Security won't cover enough post-retirement.

In 2016, Social Security paid out $905 billion to retirees, and while that may seem like an impressive number, the actual benefits paid out are somewhat less impressive. According to the Motley Fool, the biggest check a retiring 65-year-old can receive is $2,542.

Many of those close to retirement will be counting on Social Security to cover the majority of their expenses, but depending on your career before retirement, income level, previous investments, age and health, those benefits may not be enough.

## What to Know About Social Security Benefits

The actual benefits received from Social Security vary based on a variety of factors, and those benefits may not cover everyone depending on the circumstances. Here are a few things every retiree should know.

*Without Social Security, 40% of retirees would live in poverty*

61% of all retirees count on Social Security to provide for them, and 33% rely on it for at least 90% or more of their annual income. But the benefits are progressive: the higher a worker's pre-retirement income, the more benefits they will receive. But the percentage of income it will cover will be less than lower earners.

For example, a worker making $30,000 per year pre-retirement may only receive $1,250 in Social Security benefits, but that makes up nearly half of his or her pre-retirement income. The same person making $100,000, on the other hand, might receive closer to the benefit cap (approximately $2,500), but it would only make up around a third of their annual income.

In both scenarios, the benefits are still not enough to cover the same income level they had pre-retirement, but it does cover something. According to CBPP, more than 40% of those age 65 and older would live below the poverty line without Social Security.
While Social Security doesn't cover all of your expenses, depending on your income level it will, at the very least, sustain you.

## Benefit amounts depend on retirement age

Aside from pre-retirement income, Social Security also pays out different benefits based on when you file for them. The longer you wait to claim, the greater your maximum benefits will be.

But this also means waiting longer to retire to receive maximum benefits. For those with health concerns or other issues that might accelerate the retirement process and remove them from the workforce sooner than expected, that could be a problem.

The recommended age for retirement to receive the most benefits from Social Security is 70 years of age, but not everyone can or will want to wait that long to retire. Those looking to hang up their hats at 62, for example, will receive less of a payout than those who wait longer.

## Social Security funds can be depleted

Of course, those who wait too long may find that they don't have as many benefits as they thought.

According to the 2016 Annual Report by the Social Security and Medicare Boards of Trustees, some Social Security benefits may be depleted by 2028. This means that for every dollar paid into Social Security, only 75 cents is paid back after retirement.

There have been several solutions proposed over the years to combat this problem, including options to remove the payroll earnings tax cap, tax the rich at a higher rate or raise the retirement age. But none of these options are guaranteed to solve the problem in the long run and many come with additional drawbacks that can affect benefits.

Baby Boomers looking to retire in the next few years may find it easier to calculate (and receive) Social Security benefits than their younger counterparts, including Gen Xers and Millennials.

## How to Plan If Social Security Isn't Enough

So, what does this all mean when it comes to planning for retirement? For starters, it means that if you do receive Social Security, you probably will be covered for some basic necessities (you probably won't be destitute). But it also means that you won't necessarily live the life you want.

Benefits only cover a certain amount, and fluctuate wildly depending on your income levels pre-retirement as well as when you retire (if you retire) and the economic standing of the program itself.

Thankfully there are a few things you can do to offset these drawbacks to ensure that you're living the way you want to in your golden years

## Make sure you're receiving the right amount

Kimberly Foss, certified financial planner and founder of Empyrion Wealth Management, says that the first thing retirees should do is confirm that they received the correct amount. Knowing how much you should receive before you start collecting Social Security can help protect you against under or over-payments (which would need to be repaid later on). Head over to the Social Security website to check your estimated benefits.

# Plan carefully and stick to your budget

While many retirees dream of traveling the world or spending their days carefree with family, it can be extremely easy to outspend your budget if you're not careful. Taking the time before and during retirement to budget for expenses and save money will help alleviate any headaches caused by unexpected events or a sudden change in income levels should it occur.

# Have a backup for medical expenses

According to CNBC, the average woman will spend an estimated 70% of her Social Security check on health care, while the average man will use nearly half of his benefits to cover medical expenses. The National Council on Aging approximates that 92% of older adults have at least one chronic disease, and 77% have at least two. Having a plan to cover expected and unexpected costs will help alleviate the burden should health issues become a barrier.

# Generate supplementary income

Supplementing your income from additional sources, such as cash flow investing or even a part-time job can make all the difference. Considering that Social Security will never cover 100% of your pre-retirement income, having additional income to offset any expenses (or to simply take that long vacation you've been waiting for) will significantly improve your situation when it comes time to retire.

# Moving Forward

It's never easy to estimate how much you will need in retirement to truly thrive (and not just survive), but understanding how much will be covered by Social Security can help you plan out your budget accordingly.

Know that Social Security will cover some basic necessities, and depending on your pre-retirement income as well as the age you retire, you can expect to receive at least a portion of that income to live off of.

But that doesn't mean Social Security will cover everything, especially if you encounter hiccups over the years, like unexpected medical bills that may eat away at your budget. Your best bet is to plan for Social Security to be a part of your overall income and find ways to supplement that income with other methods, like cash flow investing.

# 6 Times You Can Start Receiving Social Security Benefits

*This is an extra resource to go along with the original article:*
***How Much Social Security Will Really Cover***

Not all retirees hang up their hats at age 65. For those that want to retire early, or those that want to wait to receive benefits at a later age, there are a few things you should know. Here are 6 different times during your retirement that you can receive benefits. (If you're not sure what your benefits will be, you can check them here.)

## FULL RETIREMENT AGE (FRA)

Traditionally, Full Retirement Age is considered to be 65, but it actually depends on the year you were born. For those born in 1937 or earlier, the FRA is 65, but for those born between 1943 and 1954, the FRA is 66. If you were born in 1960 or later, your FRA would be 67.

## AGE 62

While you can technically retire at any time in your life, 62 is the earliest age you can start receiving Social Security benefits. BUT your benefits will be reduced if you take them this early. They will be reduced based on the number of months you receive benefits before you reach Full Retirement Age.

## RETIREMENT

Once you pass age 62, you can start benefits at any time. Depending on your age, your benefits will be reduced if you file prior to FRA or larger if you are older than your FRA. In any case, you can receive your last paycheck from your employer in one month and have Social Security to replace some of your income in the next.

## AGE 70

The longer you wait to receive Social Security benefits, the more you get. Each year you delay beyond your FRA, your benefits grow by 8% (plus a cost of living adjustment). By waiting until age 70 you will receive maximum benefits. You are unable to delay benefits beyond age 70.

## BEYOND FRA

If you're over your FRA and you still haven't filed for Social Security benefits, but you're strapped for cash, you can receive 6 months of retroactive benefits in a lump sum. Just be aware that by taking retroactive benefits you may lose any delayed retirement credits (that would would accrue by waiting until the age of 70).

## DEATH BENEFIT

A spouse (who is living in the same household) can receive a one-time lump sum benefit of $255, and the spouse's benefits will increase to the deceased's benefits (if he or she was the higher income earner of the family).

# Should You Work Part-Time after Retirement?

Will you still hold down a job after retirement? According to one survey, 75% of Americans believe they will have at least a part-time job after they retire, and 62% of those surveyed cited financial motivation as a primary driver.  Working in retirement may be a choice or a requirement.

Other studies show that only 18% of the pre-retirement workforce feels “very confident” that they’ll have enough money for a comfortable retirement, and 24% said they were “not at all” confident.

For some, working past retirement is a positive option. Many people simply enjoy working for the sake of working, and some don’t plan to retire until much later than normal so they can continue working in a career they love. But for others, the idea of working after they’ve already hung up their hats can feel like an unwelcome burden or a stressful necessity.

If you’re not sure that you want to work after retirement, you’re worried that you’ll have to work even if you don’t want to, or you’re not sure what you could do for a job that would still be fulfilling without being stressful, here’s what you need to know.

# Job-Related Retirement Concerns

Will your pre-retirement savings be enough to live on? How much will Social Security actually cover? What will you do in case of unexpected circumstances or health concerns? Will your investments be enough to generate income?

There's also the unpredictability of it; you don't know how long your retirement will last, what events will occur and how far your money will stretch. In this case, having a part-time job or a fallback plan may help some people feel more secure about their post-retirement life.

But assuming retirees looking for work won't continue on in the same career they had before retirement, there are also concerns about jumping back into the workforce, even part time, which may feel dismaying.

Will companies want older employees? Will there be physical or mental tasks that you may not be able to fully perform? Will it be fulfilling? Will it cover the bills without wasting too much time?

Those that want to work after retirement – whether due to a passion for a certain job, a desire to stay motivated and active or any other reason – may feel the same pressures as those forced back into the working world due to financial concerns.

Will you still enjoy your job when you could be doing other things? Will you need to switch careers? Will you need to take time off for health reasons? Will you still be able to enjoy the other benefits of the retirement lifestyle?

In these cases, a part-time job can also alleviate worry and provide a solid outlet for creativity and passion as long as the tasks associated with the job were manageable. But that doesn't mean it's the right solution for everyone.

# Pros and Cons of Working in Retirement

There are a few pros and cons that retirees or those close to it may want to consider before filling out a job application.

Pros include:

- Additional income to cover expenses
- Busyness (for those wanting to be more active)
- Relational benefits (from socializing with co-workers, etc.)
- Sense of purpose or passion
- Less likely to dip into savings
- Greater flexibility with job choices

Cons include:

- Time commitment (for those wanting to have more free time)
- Potentially increased expenses (commuting, pet sitting, work-appropriate clothing, food at work, etc.)
- Income tax on earnings and potentially Social Security
- Lack of full-time benefits (if working part time)
- Potential age discrimination
- Increased stress (if there's no passion for the job)

Another thing to consider is the impact on your Social Security benefits. If you work during retirement, you will technically be earning more over time, which can increase your benefits, especially if you retire after the age of 65. If you retire early, however, and earn income over a certain limit after you've started receiving retirement benefits, those benefits may be reduced. This limit is known as the retirement earnings test exempt amount.

# Options for Alternative Retirement Income

Should you work after retirement? If you've weighed the pros and cons you should be able to determine which solution is the best for you. If you value your free time and don't feel that you need the extra money, then taking your full retirement makes more sense.

On the other hand, if you're concerned about money or your retirement savings, you may consider doing some part-time work or finding an alternative source of income. The good news is that there are options out there in either case.

For those looking for part-time work or are planning to switch careers post-retirement, some good options could include things like starting a business, working in retail, turning a hobby into a job, working or staying at your old job, consulting, volunteering, or even finding a job with a company that actively recruits seniors, like those listed by the AARP.

But if you weren't interested in working part time, or you still don't feel like a part-time job will be enough to pay all of your bills or give you the confidence you need to truly enjoy retirement, you can also invest. More specifically, you can become a cash flow investor.

Cash flow investing allows you to yield a certain percentage from your portfolio each month, giving you spendable income from your investments. Instead of buying assets with the hope of selling them some day to make a profit, you invest in assets with the potential to generate income for you now.

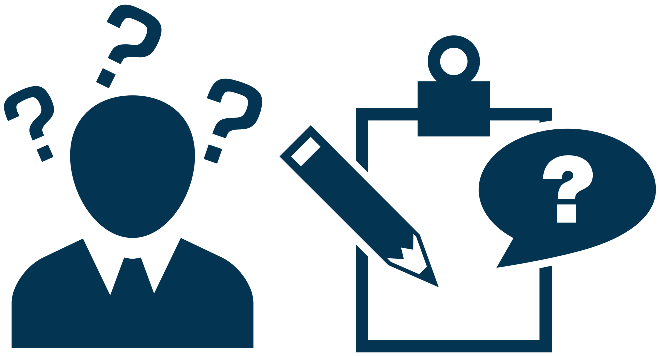
This gives you the ability to free up time otherwise spent working to enjoy your retirement years. Or, if you really liked working, you could do both with the freedom of disposable income.

# The Verdict

Deciding whether or not to work during retirement will come down to the type of lifestyle you want to lead. If you truly enjoy your job or have always wanted to explore another career, retirement may be the perfect opportunity to pick up some extra work, make some money and pursue your passions.

But if you're the type of person who wants to spend their retirement on a beach, or at the very least, not in an office, you will have to consider other options for generating income, including part-time work or investments that generate income for you.

Of course, generating passive income from your portfolio will give you the most freedom, and should you still choose to work, you will have greater flexibility in what you do and when you do it with cash flow investing.



QUIZ

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# Will I Need to Work?

*This is an extra resource to go along with the original article:*
***Should You Work Part-Time After Retirement?***

Maybe you're not ready to fully retire, or you're worried about your financial situation after retirement. Whatever your reason, you want to be sure of your decision before you make it. This quiz will help you determine whether or not you need to work after retirement.

| | | CIRCLE ONE: | |
|---|---|---|---|
| 1 | I tend to spend less than I earn. | YES | NO |
| 2 | I feel financially prepared if unforeseen events occur. | YES | NO |
| 3 | I feel as though my current retirement savings is adequate. | YES | NO |
| 4 | I plan on using Social Security after retirement. | YES | NO |
| 5 | I know how much my Social Security benefits will be. | YES | NO |
| 6 | I am planning to downsize my lifestyle to accommodate my post-retirement budget if needed. | YES | NO |
| 7 | I know what job I would prefer to have after retirement if I chose to work. | YES | NO |
| 8 | I feel that I have the option to work but it will not be a requirement. | YES | NO |
| 9 | I find my sense of accomplishment and fulfillment in other things besides work. | YES | NO |
| 10 | I look forward to having as much free time as possible in retirement. | YES | NO |

**Add up all your "Yeses" Total points: ______________**

0 - 1 - 2 - 3 - 4 - 5 - 6 - 7 - 8 - 9 - 10

**0 – 5 points**
**You may need to work during retirement.**
Whether a case of boredom, the love of a job, or financial necessity, a part-time career may be a good option for you. Keep in mind that you may not be able to rely on this work for all of your bills, so you may need to have alternative options available, like cash flow investing, to make up the difference.

**6 – 10 points**
**You don't have to work, but you could if you wanted.**
You probably don't have to work unless you absolutely loved your career or wanted to explore turning a hobby into an income-generator. But for the most part, you should be fine without a post-retirement job. Just remember that you have to pay the bills somehow, and cash flow investing can provide you the peace of mind to make sure you don't run out of money before the end of your retirement.

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# How Your Portfolio Can Generate Income in Retirement

In an ideal world, retirees would have so much money saved before retirement that they could hang up their hat without having to work for another dollar.  However, income in retirement is a huge challenge for many retirees.

Unfortunately, for most people, having a nest egg – even a decent sized one – isn't always enough. In fact, studies show that only 25% of retirees say they have no plans to work in retirement, meaning that most people will continue to earn income well into their golden years.

Worse yet is that 62% of those surveys said they will continue to work because of financial issues. This also means that some people may take a late retirement instead, or simply never retire at all.

For someone to truly enjoy retirement the way it's meant to be enjoyed, they will have to find ways of generating passive income.
If you find yourself in a situation where you're concerned about your postretirement income and want to know how to make money without taking another job, here's what you should know.

## Retirement Income Challenges

There are a few reasons why a retiree may face financial problems well into retirement that prevent them from making the most of their time.

### 1. A lack of pre-retirement funds

Only 49% of American workers participate in a workplace retirement plan. Of the rest, one in three have no retirement savings plan in place, 56% have less than $10,000 saved, and just 18% have over $200,000 in a retirement account. Of those eligible to contribute to their retirement through an employer-based 401(k), 17% don't contribute.

Even though these statistics take into account younger generations, in terms of those closer to retirement age (age 50+), the average amount saved for retirement is only

$60,000. Not having enough money in the bank before retirement can create a large gap in income after retirement.

It's very possible that retirement can last for 20 to 30 years, or more. Supporting lengthy retirements can eat through even the largest savings account, and most people simply don't have the funds to cover an unexpectedly long retirement.

### 2. Prematurely raiding retirement accounts

Accidents, health problems, or job losses can damage pre-retirement savings. Without an emergency savings plan in place, some are forced to dip into their retirement accounts early, further damaging their access to usable income after retirement.

According to a retirement confidence survey, only 18% of workers say they're "very" confident about having enough money for a comfortable retirement, while 24% are "not at all" confident.

### 3. Inflation and taxation

While current inflation rates are relatively low (1-3% today compared to 13% in 1981), it's still an issue to consider, especially for those who experience longer than normal retirements. $1,000 today, for example, will only be able to purchase $552 in goods 30 years from now with a meager 2% annual inflation rate. With a 3% rate, that $1,000 will only buy you $412 worth of goods. If inflation goes up to 5% or 6%, the results could be devastating for those trying to live off fixed incomes.

Depending on where your retirement income comes from, it can also be taxed. Withdrawals from retirement plans, pension income, and investment income from non-retirement accounts are taxable. The only exception is money used from tax-deferred accounts structured as Roths.

If you face any of these challenges, you will need to find a way to create income after you retire to offset any potential setbacks.

# Generating Income with Options

One of the best ways to do this is through investing. More specifically, by selling covered calls. If you're not familiar with the idea of a covered call, here's what to know.

A stock option – or the right to buy stock in a company at a discounted or stated fixed price – allows investors to buy and sell their share in a business. A covered call is a type of stock option where you sell (or "write") call options against shares of stock you already own. You can also sell "puts" against stocks you want to buy, which is called a put option.

**Call options** provide the buyer the right to purchase a stock at a certain price, though they're not obligated to actually buy the stock. Investors often purchase call options when they believe the share price will rise and they can sell later at a profit.

When you sell a call option, you collect the premium (cash) up front, which you can use for income. In exchange for the premium, call sellers are obligated to sell their shares at the agreed Strike Price on or before the Expiration Date.

**Put options** provide the buyer the ability to sell at a specific price, also called a strike price. The writer of the put option is obligated to buy the stock at the strike price. Investors who are put buyers tend to be shareholders who want to protect their stocks from a steep price decline.

When you buy a put option, you pay cash up front, but in return you have the right to sell it at the strike price. If the stock drops below the strike price, you are protected from further price declines. The put seller gets to keep the premium even if they don't purchase the shares prior to expiration.

While selling puts can be a great option for investors, it does require a substantial amount of cash set aside in your account in case you need to purchase the shares. Selling both calls and puts are great tools to enhance your long-term investment strategy. Neither should be used recklessly in the hopes of making a quick profit.

Ultimately, deciding if you will sell calls or puts depends on your goals as well as your financial stability. If you want to potentially buy a stock at a lower price, sell puts. If you want to potentially sell a stock at a higher price, sell calls.

Keep in mind that both options are part of a cash flow investment strategy that can generate income and reduce investment risks, though covered calls typically yield higher profits, which can offset the income challenges faced by many retirees.

# Final Thoughts

If you're concerned about your income after retirement, the good news is that you don't have to be an investment expert to generate income with covered calls. Do-It-Yourself investors or those new to investing can choose stocks and sell options to help reduce the costs of retirement.

Remember that while all investment strategies do contain some risk, with the right strategy you can navigate through those risks in order to generate income when you need it the most.  The time to plan for income in retirement is now, not If you want to learn more about selling options to generate retirement income, we have several free courses available that cover these topics more in depth here.

# 5 THINGS Investors Should Know About Covered Calls

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*This is an extra resource to go along with the original article:* ***How Your Portfolio Can Generate Income in Retirement***

***Covered calls are a great option for investors looking to make an income from their portfolios, but there are a few areas to be aware of if you're new to the concept. Here are a few things investors should know about covered calls.***

## 1. TERMS ON THE TRADE

Option sellers are able to set the terms on their trades. The premium collected from selling calls depends on three factors:

- **Strike price** – This is the pre-determined price that the underlying shares will be traded at should the option be exercised
- **Time to Expiration**– Sellers can choose from many different expiration dates that range from weeks, months, or even years away. Longer timeframes typically means more premium but also allow for more opportunity for the stock price to exceed the strike price.
- **Contracts (Not shares)** – For every 100 shares of stock held, investors can choose to sell 1 call contract

## 2. "OUT-OF-THE-MONEY" VERSUS "IN-THE-MONEY"

"Out-of-the-money" is a term used to describe a call option with a strike price that is higher than the market price of an underlying asset. It can also refer to a put option with a strike price that is lower than the market price. An "in-the-money" option has a strike price that's already passed the current stock price. Out-of-the-money options have no intrinsic value but they do have **time value**. As Snider Method investors, we consider ourselves ***time*** farmers.

## 3. EXPIRATION DATES

Options don't last forever, and eventually they will expire. Sellers must sell shares at the specified strike price at or prior to the expiration date. There are two ways to describe when an option is sold:

- American style – An option contract that may be exercised at any time between the date of purchase (or sale) and the expiration date. (These are the most common and heavily traded on American option exchanges.)
- European style – An option contract that can only be exercised on the expiration date.

## 4. OUTCOMES OF AN EXPIRED CALL

If you hold your calls until expiration, there are two potential outcomes:

- If the stock option closes above the strike price, the seller (you) will be required to sell 100 shares of the stock to the option buyer for each contract
- If the stock closes under the strike price, the call options expire worthless

In both cases, you receive the premium for selling the call on the same day as you place the trade. Whether your call expires worthless or gets exercised, you get to keep the premium.

## 5. THE RISKS OF COVERED CALLS

Just because a call is "covered" doesn't mean that you're completely risk free. Covered calls hold two main risks:

- If the underlying stock price drops in value, the investors holding value will also fall (though a falling covered call is still more profitable than someone who owned the stock on its own)
- If the stock price rises dramatically, the seller of the option will only receive the 'exercise price' of the option that they sell together with the premium received on the option

*Covered Calls are a primary component of the Snider Investment Method. This popular option strategy is both simple and effective in generating additional income from your investments and reducing risk. If you'd like to learn more about the Snider Investment Method, please visit* ***https://www.snideradvisors.com/strategy/.***

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# Why Cash Flow Investing Is Your Best Income Generating Option

Is a nest egg of one million dollars enough to retire comfortably? How about half that amount? What's the minimum you would need saved to have a comfortable monthly income after retirement? How would cash flow investing make reaching your income needs even easier?

Those close to retirement are often discouraged by the financial figures they receive from retirement savings calculators. A monthly income of $5,000 requires around $1.5 million in your retirement portfolio to generate this amount (using a "safe" 4% annual withdrawal rate).

But even then, that amount only covers you for 30 years. What happens if you want to live off of more than $5,000 a month? The higher your monthly expenses, the more retirement funds you will need, which may be discouraging to many. Cash flow investing allows you to generate a comfortable monthly income without having millions of dollars squirreled away in a nest egg. It also helps retirees overcome some of the biggest challenges they face when it comes to investing, including things like taxation and inflation.

But is it the right option for you? Here's what to know.

## Challenges to Investing for Retirement

There are several obstacles to generating income for retirement that you may have little control over, including the length of your retirement, market volatility, inflation, and taxation. Cash flow investing can help mitigate these obstacles in certain cases, but it's important to know what you're up against.

### Challenge #1: Longevity

No one can really predict exactly how long their retirement will be, and one of the biggest challenges when trying to determine how much you will need for retirement is knowing how many years you will have to stretch your nest egg to meet your day-to-day expenses. You don't want to outlive your retirement funds.

Cash flow investing alleviates some of this burden by allowing you to generate income for as many years as necessary, and should you pass away sooner than expected, your portfolio can be passed on to your beneficiaries, allowing you to leave a legacy for those coming after you.

### Challenge #2: Volatility

Another thing that can be difficult or nearly impossible to predict at times is the market's volatility. Market swings and "Black Swan" events (earthquakes, financial crisis, etc.) can happen, and when they do, they can have a major impact on the financial market.

Cash flow investing gives you the opportunity to invest in lower-risk options, like covered calls and choosing diversified stocks that have proven to be reliable over time. You won't have to be swayed by the market's rises and falls because you'll be generating income month after month.

### Challenge #3: Inflation

The rate of prices of goods increases each year, which means that the number of expenses your retirement income covers may change over time. For many retired people, higher inflation is especially difficult because they may be living on a fixed income that can't support rising costs. In addition, many of the goods and services most often used by retirees are already experiencing greater-than-average price inflation (like healthcare).

This means that your nest egg may not cover your bills the same way in 10 or 15 years as they do now, so you will need to adjust your levels of income accordingly over time. With cash flow investing, your income you need to live comfortably can also increase keeping pace with inflation.

### Challenge #4: Taxation

Taxes on retirement and investment income can be tricky to manage if you don't know what you're doing. Depending on your situation, some of your Social Security, retirement funds (401k, etc.) and retirement income may be taxable. If you only have 85% of your budgeted income to work with, you may not be able to enjoy your retirement money as much as you hoped.

With cash flow investing, you can increase your average monthly income to cover any reductions as the result of taxes. This means that you can have the lifestyle you want while still paying any taxes or fees that you would otherwise owe.

# Does Cash Flow Investing Work for Everyone?

Even though cash flow investing can help ease the obstacles to living well in retirement, many retirees may not consider themselves savvy enough investors to give it a shot. The good news is that you don't have to be a professional investor to generate income from your portfolio.

Cash flow investing is, in simplest terms, about creating income streams to cover your monthly expenses, and there are many different ways you can create cash flow in order to do so. You can generate income from a diversified portfolio and reduce the risk of running out of money in retirement.

With real estate investing, for example, cash flow is the result of proceeds from rent payments. You could also purchase a multi-unit building, like an apartment complex, and manage the property for monthly income. Or you could own a vending machine on a property that makes an income (or all three options).

But real estate is just one type of cash flow investment. There's also option investing (a large part of the Snider Investment Method) that deals with covered calls, puts and other forms of equity. A covered call is an options strategy that involves both stock and an options contract. The investor buys (or already owns) a stock, then sells call options for the same amount (or less) of stock, and then waits for the options contract to be exercised or to expire.

Covered calls tend to be a more popular option for investors, as it's lower risk than real estate investing and gives you slightly more control over your portfolio. But in either case, you have freedom.

This makes cash flow investing a great choice for retirees who want to generate monthly income from a variety of sources but who don't want to be pigeonholed into a single type of investment.

With cash flow investing, you're covered by a broad range of low-risk investments that can provide you with sustainable income over as many years as you need it. This makes it a near-perfect income generating option, especially for retirees.

Cash flow investing is a great income-generating option because of its flexibility and reliability. Many retirees stick with the same investment approach in retirement even though their investment objective changes from growth to income.  Shifting to a cash flow investment approach can create a larger, more dependable income source throughout retirement.  Retirees can put their money to work rather than rely on the old Buy and Hold **(we like to call it Buy and Hope)** mentality.

Investing for cash flow also means that you have a little more security to weather the ups and downs of the market, inflation rates, taxes and other factors that may be outside your control.

Although there are some things that you won't be able to predict when it comes to how much you need in retirement (like the length of your retirement, for instance), cash flow investing gives you the most freedom to live comfortably so you don't have to worry about bills even when your retirement ends.

# 7 Ways to Maximize Cash Flow Investing

*This is an extra resource to go along with the original article:*
***Why Cash Flow Investing Is Your Best Income-Generating Option***

Cash flow investing is a great option for retirees who don't feel like they have enough saved up in their retirement funds before they actually retire. But for those new to investing, there are some tips to follow to make sure that you get the most out of your cash flow investments.

## 1. Diversify.

Investors looking for steady income should put together a diversified portfolio, and consider companies that have proven track records of dividends. Blue chip companies are known to weather downturns and operate profitably in the face of adverse economic conditions, which helps to contribute to their long record of stable and reliable growth.

## 2. Explore different cash flow investments.

Real estate investing is a type of cash flow investing, but it comes with more responsibility than simply managing a portfolio of securities. Bonds will produce regular cash flow but with low interest rates and little to no inflation protection, income may be limited. Covered calls are a great way to turn a regular stock portfolio into a cash flow investment.

## 3. Understand the tax benefits and challenges.

What type of funds you use to invest impact how the taxes will be handled. Taxable accounts (Individual, Joint, and Trusts) will be taxed on the investment gains annually. Qualified accounts (IRA, 401(k), and Rollovers) will only be taxed when money is withdrawn.

## 4. Review your investments at least once a year.

Take the time to monitor and balance out your portfolio once a year and get your asset allocation to where it should be. Evaluate your income needs for the future, and pick the best mix of investments to meet those needs. Even if you have an investment advisor, you should still check up on things regularly.

## 5. Keep investment fees low with do-it-yourself management.

Some retirees may choose to have their investments managed for them, which is a perfectly reasonable option as long as you're aware that there are management fees associated with that option. Fees are important because the money that doesn't go into the pocket of your investment manager goes into yours. For those that want to keep fees low, consider a do-it-yourself investment option (find out more here).

## 6. Alternatively, consider a managed account.

On the other hand, you may simply not wish to be so heavily involved in your investments, but that doesn't mean you shouldn't reap the benefits of cash flow investing. Consider opting for a managed account if you fit one of these client types.

## 7. Talk with other investors.

Don't make investing a solo endeavor. Other investors have been doing this successfully, and there are financial advisors that can give you advice on any tricky situation that might arise with your portfolio. Don't keep questions to yourself. Find someone who has been there and can help you navigate any investment scenario that you find yourself in.

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# Turning Your 401(k) into a Portfolio Paycheck

When it comes time to retire, what should you do with your 401(k)? For most investors, it's time to turn that money into a paycheck.

Many people spend their working years focused on building up a nest egg in the form of a retirement plan like a 401(k) (or an IRA, or both). But by the time retirement actually draws near, many are left scratching their heads about how to turn that nest egg into livable income.

Unfortunately, the process of turning a 401(k) into a paycheck isn't as straightforward as it seems. According to a Government Accountability Office (GAO) report, only a third of 401(k)s have retirement withdrawal options and only a quarter offer an immediate annuity (though you can always buy one separately).

While it's possible to turn your 401(k) into income, those seeking to retire comfortably will need to come up with a comprehensive retirement strategy that generates income from different sources, including Social Security, other investments, and – yes – a 401(k).

If you're close to retirement and you're not sure what to do with your nest egg, here's what you need to know.

## Rollover Your 401(k)

Most investors have limited investment choices when investing within their 401(k). There is a good chance those investments aren't ideal for you after retirement. Beyond limited investments, you are also still tied to your former employer along with the specific rules of your company's plan.

When you make a 401(k) rollover, you are selling the investments in your 401(k) in order to move the money to a different broker in an IRA rollover. Once you have the funds in an IRA rollover, your investment choices are nearly unlimited. Most brokers allow you to invest in any stock, bond, ETF, or mutual fund. Cash flow investing is a great option for those that want to rollover and maximize their portfolio paycheck.  A strategy like the Snider Investment Method can generate income with a combination of stock, options, and cash using covered calls.

As long as you roll the money directly into an IRA, it is a tax-free event.  Once complete, it gives you greater control over your investments.  Also, you can spend the money as needed to cover expenses. Keep in mind, any withdrawals from an IRA will be taxed as regular income.  Most of our clients set up a regular monthly distribution to replace some or all of the money they received from their employer while still working. This portfolio paycheck becomes a primary source of income along with their Social Security check.

If you are concerned about the risk of an investment and require a certain amount of money each and every month, then buying an annuity might be an option for you. Unfortunately, you may end up with a smaller portfolio paycheck throughout your life to compensate for the reduced risk.

## Buying an Annuity

An annuity is a contract with an insurance company that guarantees a certain amount of income for the remainder of your life. You essentially hand over a lump sum and, in return, you receive monthly payments, which are determined by your intended lifespan (also called fixed annuities).

A 65-year-old man investing $100,000 in an immediate annuity, for example, would receive around $545 a month, while a 65-year-old woman would receive about $505 (you can use an annuity payment calculator to determine what you might receive).

Though this seems like the easiest solution for generating monthly income, using an annuity comes with its own set of risks.

With annuities, you risk losing money if you die earlier than planned. Since the money is calculated based on your total years spent in retirement, you won’t receive the full amount of your annuity if you pass on prematurely.  Also, since the payment is fixed, any inflation reduces your purchasing power every year.

There are also other fees associated with annuities. Variable annuities – annuities that pay you based on the performance of investments rather than on age – tend to have higher fees than fixed annuities because they require more active management.

There's also the issue of competition. You may have the choice to buy an annuity within your 401(k) or by rolling out the funds and using a different annuity provider.  While some 401(k) plans offer an immediate annuity, your payment may actually be cheaper if you buy from an outside insurer.  Settling for your current plan's annuity without shopping around can cost you if you're not careful. (If your plan doesn't offer an annuity at all, you can always buy one within a rollover IRA.)

Of course, if you shop around and find an annuity plan that works for you, and you don't mind paying the associated fees, you can use the money to supplement your Social Security to generate monthly income.  Keep in mind, payments from the annuity will be taxed as regular income.

You can also buy a longevity annuity, which is an annuity where the payout doesn't start until 80 or 85. This may be a good option for those who want to generate income from other sources first and want a backup in case their nest egg is depleted sooner than expected.

# 401(k) Withdrawal

Potentially the worst decision would be to simply withdrawal all the money. First, you will have to pay income tax for all of it at once.  Depending on the size of your 401(k), it could move you to a much higher tax bracket.  If you withdraw before age 59 ½ you will also have to pay an additional 10% penalty.

Even if you plan to invest most or all of it right away, you should still roll the money into an IRA.  This way any of the investment gains will also be deferred until withdrawing the money.  You also run the risk of burning through the money faster than expected, leaving little in way of a backup should your Social Security or other sources of income not cover all your bills.

On the other hand, there are some instances where withdrawing money makes the most sense. Some use their 401(k) to pay off debt that would hinder them in retirement, or they split the money between investing and covering larger bills while relying on other sources of income for primary bill paying.

You also have the option to cash out a part of your 401(k), roll over a portion, and leave the rest in either a variable or fixed annuity to generate additional income.  After retirement, you don't have to do the same things with the entire account.

# It's All about You

When it comes time to decide what to do with your 401(k), you want to make sure that you've taken a financial inventory of your needs first. You should know how much money you should expect to make in retirement from other sources, like Social Security, part-time work, or from any other investments you may have.

You should then check to see if your 401(k) already has an annuity option and, if so, compare it against other insurers to make sure it will be a viable source of income for you. You may then need to decide whether to choose a fixed annuity – which will generate a set amount of income per month depending on how long you live – or a variable annuity, which is an investment option using stocks and bonds.

If you're not sure you want to buy an annuity, or you want to buy an annuity but generate income in other ways, you can also weigh the option to withdraw some (or all) of your 401(k) to invest elsewhere. (Cash flow investing is a great solution for generating income without buying an annuity.) Just be careful not to withdraw all your money and spend it frivolously.

If you're not sure what you want to do with your 401(k), or you want to take a combination of the above options and are not sure what to do next, consider consulting with a financial expert that can help you make the decision before it comes time to retire.

# 3 Reasons to Roll Your **401k**

**This is an extra resource to go along with the original article:**
**Turning Your 401k Into a Portfolio Paycheck**

**Many retirees choose to roll over their 401ks into an IRA after retirement, and here are a few good reasons why**

## Reason #1: More Investment Choices

Most 401k investors have the choice between 10 to 15 mutual funds. Once in an IRA, you can use stocks, bonds, ETFs, mutual funds, and even options.

**Do you really think the limited number of funds in your plan includes the best available investment choices?**

## Reason #2: More Control

Every 401k has a unique set of rules for its participants. These rules are designed by both the company and the plan administrator. Some areas where these rules are more restrictive than an IRA include:

- Required Minimum Distributions
- Required Tax Withholdings
- Partial Distributions
- Beneficiary Rights

## Reason #3: Less Cost

The cost to the 401k participant can vary significantly from plan to plan. Along with administrative plan fees, each mutual fund will have an expense ratio associated with it. Lower fees are one of the easiest ways to improve investment performance. Keep in mind fees won't disappear by rolling your account into an IRA. However, you will have more control to potentially reduce the fees or pay an advisor you select to manage your account.

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# What Every Retiree Should Know about Real Estate Investing

Is real estate a good investment for retirees? It depends.  Creating a real estate paycheck can be more difficult than most retirees expect.

Many investors have successfully generated real estate income to supplement retirement income, and recent statistics show that 89% of U.S. investors are at least interested in real estate investments, and 96% of those who have invested found some financial success. Of course, that doesn't mean it's the right choice for everyone.

Real estate is a bigger commitment than traditional investing and comes with more responsibilities, risks, and costs that many retirees may not want to deal with later on in life. For some, it may provide the right amount of challenge and profit potential, however.

There are ways that retirees can manage real estate investments alongside other investments to supplement income successfully, though it comes down to knowing which type of investment will produce the best results and how to overcome the challenges associated with each property.

## Types of Real Estate Investments

There are a few ways that investors can make money through real estate.

**Real Estate Appreciation.** With this strategy, investors purchase a property with the hope that over time (or thanks to improvements, location, or a number of other factors) the value of the property will increase, and once sold, will make a profit. Buying and selling property in this fashion has the potential to make investors large sums of money at once, but it can be extremely risky.

**Cash Flow Income.** This type of real estate investment focuses on buying either multiple rental properties or multi-unit properties (like an apartment building) to generate cash flow from renters. Cash flow income can also be generated from commercial properties like storage units, car washes, or office buildings. This is a great option for those wanting to generate regular monthly income.

**Ancillary Real Estate Income.** Ancillary real estate investment income includes things like vending machines in office buildings or laundry facilities in low-rent apartments. This income is not as high as cash flow real estate strategies or real estate appreciation, but it can be used to supplement income regularly, as it serves as a sort of mini-business for investors.

While each strategy has its advantages, there are several challenges that real estate investors will face regardless of which way they decide to invest.

# Challenges of Investing in Real Estate

A few of the biggest concerns when it comes to real estate investing include tenants, expenses, and upfront costs.

**Tenants.** Generating monthly revenue requires people who are willing to live in and pay you rent. If you're unable to find a tenant, or there are gaps in your renting history, it can affect your bottom line. It can also be challenging to know exactly how much to charge for rent, as setting prices too low may result in a loss instead of a profit, while charging too much may drive away renters.

**Repair and upkeep costs.** Buildings require regular maintenance and repair over time, especially if the buildings are older and need to be brought up to code. This can result in ongoing expenses that may eat into profits, or that retirees may not want to worry about.

**Down payments.** Investment properties often require larger down payments than owner-occupied buildings, and they may have more stringent approval requirements (real estate investment experts suggest putting down at least 20%). Mortgage insurance isn't always available on rental properties, so investors may also need to spend more to ensure that their investment isn't lost should the worst happen.

**High interest rates.** If you don't have the money to purchase the property outright, you will most likely need to borrow. The interest rates for investment properties will generally be higher, which may conflict with your mortgage payments as well as the amount you charge for rent.

**Property not selling.** For those who purchase and sell real estate outright, there's a high risk that properties will not sell at the desired price, or won't sell at all. This means that any money invested will not be recouped, creating additional debt and loss for the investor.

**Not generating enough income.** Unless conditions are right, there is a risk that the income generated from real estate won't be enough to fully fund a robust retirement. That doesn't mean that income can't be supplemental, but for those wanting to live solely off investments, it may come as a disappointment if results are negative.

While these challenges may be enough to make some investors search for alternative options, there are ways that retirees can manage real estate as part of their portfolio, minimize risk and generate income relatively safely.

# Tips for Managing Real Estate Investments

Making a profit from real estate takes patience, determination, and a keen understanding of the challenges listed above. Considering that so many retirees are interested in real estate despite those challenges, there are a few things that can be done to make the experience a positive (and profitable) one.

**Get help where you need it.** You may be able to handle much of the buying, selling, repairs, maintenance and general rental arrangements yourself, if you have a background in real estate or the desire to learn. But in cases where your expertise is limited, it's important to seek out help from investment experts, real estate lawyers or companies that specialize in landlord and rental services.

**Choose the right property.** Different buildings and properties have different commitment levels. A multi-unit apartment building will be more challenging to manage than a single home. There are also issues of vacancy rates, property location, and expenses to worry about, meaning that the location and building type matters when it comes to profit. If you're not sure which type of building you want, speak with someone who has done it before, or consult a real estate expert who can give you advice.

**Pay attention to your taxes.** Real estate investments receive certain tax deductions that may incentivize many investors, but remember that it's not necessarily free money. Depreciation may help keep current income from being heavily taxed, for example, but if your overall goal is for the property to appreciate in value, you're going to owe money in the long run.

**Look into management solutions.** You may require property management to deal with the day-to-day operation of your investment as well as strategic management of the property as a whole. This will come at a cost, even if you do some of it yourself, so be sure that you have the time, resources, and energy to handle management concerns should they arise.

**Be aware of timing.** The market moves in cycles, and just because you purchased a house at a decent price doesn't mean you'll be able to sell it later at a profit, especially if the market crashes unexpectedly. Consider real estate as a long-term investment strategy and be sure you're not just in it for a quick payout.

**Know how to measure success.** Risk and return are easy to determine in the stock market, but measuring real estate performance can be difficult. Just because you're generating steady income now doesn't mean you're going to be successfully generating income 5 years from now. Be sure you know how to manage your property over the full length of your retirement.

# Is It Right for You?

Real estate can be a good investment if you know what you're doing and you go about it the right way. If you want to use real estate to build a steady source of retirement income, you need to be patient and systematic as you build a portfolio of income producing properties. It can be a good alternative asset to add to your portfolio to create greater diversification, but not a good idea to be your only investment. It is never smart to put all your eggs in one basket!

We love the idea of income investments. However, we've found our proprietary strategy that includes stocks, options, and cash can be a simpler, less time-consuming way to create a portfolio paycheck from your investments. Click here to learn more about the Snider Investment Method.

It's important to remember that real estate is a higher risk investment, and while the payout can be significant, there are other expenses and costs associated with rental properties or buying and selling that other traditional forms of investment don't have (like getting people to rent from you who also won't destroy your property).

For those interested in real estate investment, spend some time researching your options for rental properties, whether you want to buy and sell or generate cash flow, and what your options are in terms of locations, expenses, and management options.

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# 7 Risks for First-Time Real Estate Investors

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

***What Every Retiree Should Know About Real Estate Investing***

***Getting started with real estate investing may seem daunting. With patience, time, and research, it can become an important part of your portfolio. Here are a few things you can do to maximize your earning potential if you're looking to invest in real estate for your retirement income.***

## 1. Understand the responsibilities of a landlord

You may be an expert at fixing a leaky faucet around your house, but managing repairs for other properties can be time-consuming and costly, especially if you're not wanting to spend your retirement funds or energy as a handyman. While there are companies out there that can help with landlord responsibilities, you will still need to be involved in the process to some degree.

***Make sure you understand what you're getting into before you take the leap.***

## 2. Don't make purchasing decisions based on emotion

George Raptis from Property Update believes it's important for real estate investors to make purchasing decisions based on analytical research and not on emotions. "Allowing your emotions to cloud your judgment means you are more likely to over-capitalize on your purchase, rather than negotiating the best possible price and outcome for your investment goals," he says.

## 3. Research your rent prices

The amount of income you can generate from your properties will depend on how much you charge for rent measured against your property's operating costs. Check local ads for units similar to yours to see what the average rent is as well as what types of incentives are being offered to renters (too many could be a sign of high vacancies).

## 4. Consider operational costs

Not all landlords will have the same operational costs. Multi-unit owners, for example, will pay more expenses than those with only one rental property to manage. Apartments or condos will have different needs than houses in terms of utilities, landscaping, snow removal, repairs and other expenses. Make sure you have an accurate idea of all the associated costs of owning your rental property/properties before you commit.

## 5. Know the real estate laws

You don't have to be an expert on real estate, but you should be familiar with any federal or state laws pertaining to your rental properties. Federal, state and local landlord-tenant laws must be followed fairly rigidly if you want to avoid exposing yourself to fines and legal liability. Research and familiarize yourself with these regulations so you know what you can and can't do before you buy the property.

## 6. Watch out for fraud and scams

Real estate is significantly less regulated when it comes to investments. Get rich quick real estate scams are extremely popular. Networking with experts in the real estate industry can help you navigate complex situations and avoid scams. There are several online resources available for first-time landlords, such as Quora's real estate section or BiggerPocket's real estate investing forum where experts frequently give advice.

## 7. Don't put all your eggs in one basket

While real estate investment is a great way to generate income, it's still considered high risk. Your best bet is to include real estate investing as one of your income generators, and to ensure that your portfolio is diversified and generating income in other ways as well. Combined with Social Security benefits and other income, you will be safe from potential derailment should your real estate investments fail to make a profit.

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# 3 Important FAQs about Generating Retirement Income

There is no one-size-fits-all solution for generating or maintaining income in retirement, which means that every retiree will have questions and concerns about choosing the right strategy.

Those close to retirement may have more pressing concerns than those still five to ten (or more) years away.

What do you do if you're within two years of retirement but don't have enough in your nest egg to support you? Can you afford to retire early? Should you work part-time after you retire? What happens if you delay Social Security? Should you choose an annuity?

The answer to those questions vary depending on income needs, the amount you already have saved, and what your overall goals are for generating money after you retire. Some of the answers we've covered before (here, here and here for example), but others may still have you scratching your head.

Here are three of the most commonly asked retirement income questions that we haven't yet covered.

## Which Income Source Should I Tap First?

One of the biggest questions we receive when it comes to generating income in retirement is related to income sources: Should I collect Social Security before I tap into my 401(k)?

Many retirees naturally rely on Social Security to make up a certain percentage of their after-retirement budget, so it makes sense for them to look to Social Security as the first step in the retirement process. But the longer you delay taking Social Security, the more benefits you will receive. So should you really tap into Social Security first? Maybe not.

The decision ultimately depends on a few elements:

- How much you already have saved in your retirement and nonretirement investments
- How much you have invested or plan to invest in income generating investments
- How much you can expect to receive from Social Security
- How much your Social Security benefits will increase if you hold off
- Your overall health and expected retirement longevity
- Your income goals during retirement

For retirees with a significant nest egg, postponing Social Security as long as possible and relying instead on other investments as well as a payout from your 401(k) is a better option. In reality, it's actually better to postpone withdrawals from your tax-deferred 401(k) if possible too. If you can, living off after-tax investments, like those from your portfolio or from general savings may be the best option early in retirement.

For lower income earners, Social Security will cover a great percentage of your pre-retirement income. This creates greater flexibility to start early, at 65 when Medicare begins, or full retirement age. Finally, some baby boomers are eligible for a pension payment from either their current or previous employer. Like Social Security, these are a great source of reliable income. Deciding when to start your pension should be done hand-in-hand with your Social Security planning.

# How Do I Estimate Healthcare in Retirement?

Healthcare is another common retirement concern and one of the most difficult ones to address. The amount you'll ultimately spend on healthcare is dependent on how healthy you are, and how healthy you're likely to stay, which is, unfortunately, difficult to predict. Healthcare costs and insurance premiums are increasing rapidly and governmental impact is another unknown.

Medicare health care coverage begins at age 65, but, on average, it will only cover about 50% of your total health care expenses in retirement. You will have out of pocket expenses for eye care, dental, hearing, co-pays, Medicare Part B premiums, and premiums for other supplemental insurance policies you may purchase such as a Medigap policy and long-term care insurance.

Retirees with minimal health issues are likely to spend less than those with multiple medical conditions, but as a general estimate, the average 65-year-old couple can expect to spend $260,000 over the course of a 20-year retirement.

This doesn't include long-term expenses like nursing home care, however, and medical expenses can vary widely by geographic location, but on average, expect to spend about $5,000 - $10,000 per year per person.

The first place to start is by estimating your current medical needs (AARP has a medical expense calculator here) and then creating a contingency plan for any health issues that may creep up later in life.

Many retirees have the misconception that income needs will decline as they grow older. Unfortunately, due to higher healthcare costs that is not always the case.  Early in retirement, more money may be spent on travel or entertainment, but later in life extended hospital stays and complicated medical procedures will replace those expenses.

## What Happens If My Retirement Ends Early?

Another question that many retirees have is what happens to their retirement funds or investments should they pass away sooner than expected. When planning for retirement, we often take into account how much money we will need if we live out the remainder of our days in the same (or better) lifestyle as we have now – we don't want to outlive our money, after all – but we often fail to account for an unexpectedly short retirement.

For the sake of your spouse or other family members, it's essential to ensure that funds and assets get into the right hands after your death. Here is a general breakdown of how that works.

**IRAs are not covered in your will.** When you open an IRA, you should complete a beneficiary designation form that will enable your loved ones to receive these funds in the event of your death. You can amend this form at any time, but keep in mind that whoever is on the form at the time of your passing will receive funds, no matter their relationship standing to you (e.g. ex-spouse or disinherited child).

**Your spouse typically receives funds from your 401(k) account.** You may still complete a form that designates who will receive your 401(k) benefits should you pass away early, but typically speaking, the law dictates that your current spouse receives these funds if you pass away. Keep in mind that this is true even if you've been legally separated and are living with someone else or alone. If you're single, your beneficiaries named on your designation form will receive your 401(k) funds.  Less flexibility and plan rules surrounding death are big reasons to roll your 401(k) to an IRA after retirement.  (See more reasons here.)

**Social Security will pay a one-time death benefit of $255 to your spouse.** That is if he or she has been living in the same house with you. Spouses can receive full survivor benefits once they reach their full retirement age, between 66 and 67, depending on their birth year. They may be able to receive some payouts earlier if certain conditions apply. If you are unmarried, your children or next of kin will receive the benefits, but they must apply for this payment within two years of your death.

Like your own payouts, the size of survivor benefits depends on your average lifetime earnings. Naturally, the more money you made, the larger the payments to your spouse. and widowers have the option of collecting their survivor benefits first, then switching to their own benefit at a later date if that is higher.

**Other Considerations**

Because every retiree's needs and circumstances will be different, planning for income in retirement will require some thought and consideration. You will need to assess your ultimate goals, your current income and savings, and your ability to generate income in retirement to ensure that you live life to the fullest after you hang up your hat.

When it comes to the unexpected – like medical concerns or premature death – plan for the worst but expect the best. Have a plan in place for passing off your retirement funds to a spouse or heir in the event of your passing, and make sure you budget for any necessary medical expenses before that time comes.

SniderAdvisors

# 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).

**Contact Us:**
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# How Snider Advisors Helps You Generate Retirement Income

Learn how Snider Advisors helps investors generate income in retirement through cash flow investing.

LEARN MORE

# DISCLOSURE

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