THE 19 SOURCES OF

RETIREMENT INCOME

GUIDE

FOR THOSE WHO DON'T WANT TO WORK IN RETIREMENT

JOHN L. SMALLWOOD, CFP®

19 Sources Of Retirement Income

When we meet new clients for the first time and look at their plans, we see too few sources of retirement income. It just doesn’t add up. So, we decided to put together a new workshop called Retire ASAP - As Safe As Possible, As Soon As Possible.

People need this information now and fast.

We begin the workshop by showing a chart from 2015 by the social security administration. It identifies five sources of retirement income: social security 36.5%, asset income 12%, pensions 18%, and about 7% other sources. These other sources are usually support from family members. But earnings represent 29% of the average retiree's income. It means, someone has to get up each day and work.

Do you want to be that person?

I didn't think so. So, for those who don’t want to work in retirement, we have created a long term wealth plan - maximizing 19 sources of retirement income.

The goal is to have multiple sources of retirement income - more than just a few. Because, if for any reason one of those few dries up, or the tax law changes, you're going to be in trouble. You have seen the ads out there trying to get everybody into a tax-free retirement plan.

They are all income tax free, of course. It's rather extreme and very risky. A quick tax law change can end the entire strategy - just like that. The 28 years I've been doing this has taught me that nothing is a constant. Tax laws change, interest rates change, markets change, and so forth.

So every time you build a retirement plan, you need to maximize these 19 benefits:

1. SOCIAL SECURITY

You pay a lot of money into it every single year and so does your employer. For 2018, the maximum amount of social security is 7.5% of 128,000. That's a maximum benefit of approximately, $2,700 (at the current benefit).

There's been a lot of talk around maximizing social security.

Should I defer at 70? Should I take it at 62? Should I take it when I retire? Should I take it at 67?

There's pros and cons for deferring and against deferring. Understand that the maximum for the individual is unique for everyone; so there is no one-size-fits-all solution. I can make sure that you get what’s best for you.

2. PENSIONS

Do you have pensions?

If you do, you have many options when choosing to take your pension income. Most pension incomes, are life-only mode. Let's say you have a $70,000 - $80,000 a year pension and you die before receiving that pension - there may be no survivor benefit. In the life-only option, some companies may limit your spouse to half of the survivor benefit after 25-26 years. It depends on the competence.

This is something you must understand.

When you elect a pension, you're going to have a life-only option, a joint and survivor option. For example, joint survivor, 50% means you take your reduction now and when you die, your spouse gets half. If you take a bigger reduction now, your spouse gets 100% of that now.

You need to understand those options and know what you have in your plan.

How can you maximize these benefits?

If you have life insurance and it's paid for and permanent, you might be able to maximize its benefits. The question is what's your current health? And you don't know until you get there.

3. INTEREST

Bank accounts, bonds and savings accounts, etc. generate interest. It's more conservative and has less volatility. These interest rates may be low, but they are important retirement income sources.

4. ORDINARY DIVIDENDS

Ensure you generate income through dividends from stocks as well as from bonds.

5. QUALIFIED DIVIDENDS

Qualified dividends get a preferred tax treatment. Instead of being taxed at ordinary income, they get taxed at the capital gain rate.

6. TAX-FREE DIVIDENDS

Tax-free dividends come from municipal bonds and other related assets.

7. WHOLE LIFE INSURANCE DIVIDENDS

They are tax-free until you reach your basis of what you paid into the life insurance contract. They're consistent and have been around for a long time. They offer guaranteed increases of the contract. That's why they are a good retirement income source.

8. CAPITAL GAIN INCOME

It's important to generate systematic capital gains and taking profits. This is another a great source of retirement income. Bottom line: it’s taxed at a different rate than ordinary income and you're realizing the gains on your portfolio over a specific time frame.

9. BUSINESS INCOME

A great part of any retirement plan is owning a business and having a management team or family members run it. The business can benefit from Qualified Business Income, Depreciation and other great tax benefits.

10. ROYALTIES

This may not apply to you (yet), but it's a good source of retirement income. Royalty income comes from different types of investments or inventions. It can also come from authoring a book or piece of artwork (copyright). There are unique tax benefits associated with royalty income.

11. PARTNERSHIP INCOME

Besides owning a business, there is also income from partnerships. This comes from investing in different types of entities. This type of income could be tax advantaged because it could be sheltered by depreciation,depletion and other potential tax offsets.

12. REAL ESTATE RENTAL

Generate income from second homes, an apartment, a commercial property or office building. These are highly valuable assets.

13. REVERSE MORTGAGE

This is one of the most unique assets out there. First, you pay off your house over a 20 to 30 year time frame. After the kids are all moved out, you often move into a smaller house because you need to get the equity out of it. The use of a reverse mortgage could generate a consistent tax-free cash flow. Usually, you cannot outlive it as they are non-recourse loans. It means the house is the only form of security.

14. IMMEDIATE ANNUITY INCOME

An immediate annuity income is, in essence, creating your own private pension. You give money to an insurance company. In return, they guarantee a lifetime of income for you, your spouse or both. This can come with unique tax benefits, for example the exclusion ratio. Let's say, you receive a significant monthly payment. One portion is a return on the principal and the other is interest. You are only paying tax on the interest portion.

15. ANNUITY INCOME

Here you have an either fixed or variable annuity. You take out annual income from the annuity. Depending upon your basis in the contract (IRA or non-IRA), it could have unique tax benefits. It may also provide lifetime income guarantees on the sections.

16. ROTH INCOME

Distributions from Roth accounts are tax free as well as the annual growth of the account.

17. IRA INCOME

The goal of retirement plan distributions is to defer income from high bracket to a low bracket. You should be looking at ways to remove IRA income in the most tax advantage way possible.

18. PRINCIPLE PAYDOWNS

This concept can provide critical income during different phases of retirement.

It’s about being strategic.

Think of it as the bucket strategy. You have a bucket for the first 10 to 15 years, then one for the next 10 to 15 years of retirement, and then a third bucket. A principle paydown can provide unique tax benefits as you spread out tax liability over a 10 or 12 year timeframe.

19. CHARITABLE REMAINDER TRUST INCOME

Another income source is based on a charitable giving strategy. Give highly appreciated property to a CRT (Charitable Remainder Trust) and avoid the tax and retain potential lifetime income.

The key is to have these 19 sources of retirement income.

Notice I didn't have 20 on here. The goal is not to have to work. You want to be in a position where the strategy covers a certain amount of core expenses. For example, you cover food, entertainment, real estate taxes and other things. These are all basic expenses to run your life on a daily basis.

So, when building this plan, you expose your money to as many of these 19 sources of retirement as you can. This will generate predictable and reliable income. It will cover your core expenses until age 100, more or less. With all this in place, you can expect rising income. You have inflation hedges, protection, backups, and redundancies.

Now, you have built, what I like to call a rock-solid retirement plan.

RetireASAP

SMALLWOOD
WEALTH MANAGEMENT

COPYRIGHT © 2020 · SMALLWOOD WEALTH INVESTMENT MANAGEMENT, LLC· 199 BROAD ST, RED BANK, NJ 07701 · 800-797-1000

This communication strictly intended for individuals residing in the states of CA, CO, CT, DC, DE, FL, GA, IL, LA, MA, ME, NC, NH, NJ, NM, NY, OH, PA, RI, SC, TX, UT, VA. No offers may be made or accepted from any resident outside these states due to various regulations and registration requirements regarding investment products and services. Investments are not FDIC- or NCUA-insured, are not guaranteed by a bank/financial institution, and are subject to risks, including possible loss of the principal invested. Fixed Insurance products and services offered through Ash Brokerage or Smallwood Associates, Ltd. Fixed Annuities are long-term insurance products. Before you purchase, be sure to talk to your financial professional about the annuity’s features, benefits, and fees and whether the annuity is appropriate for you, based on your financial situation and objectives. All guarantees are based on the continued claims paying ability of the issuing company. Investment Advisory Services provided by Smallwood Wealth Investment Management, LLC, an SEC registered investment advisor. Headquartered at 199 Broad Street, Red Bank NJ 07701-2056Securities offered through Purshe Kaplan Sterling Investments, Member FINRA/SIPC Headquartered at 80 State Street, Albany, NY 12207.Purshe Kaplan Sterling Investments and Smallwood Wealth Investment Management, LLC are not affiliated companies.NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL. NOT INSURED BY ANY STATE OR FEDERAL AGENCY.