How to get down the retirement mountain without breaking your neck!

By Tim Fitzwilliams, Fitzwilliams Financial

What mountain? The retirement mountain of your hard-earned savings. First, let me say this: Congratulations on working very hard and acquiring a retirement account. Now, I realize some people's mountains are bigger than others, but the fact is that logic does not change with the size of the mountain. People climb the mountain different ways. You may have used a wealth accumulator, like a money manager, or perhaps you self-managed your own growth and just hoped for the best. Either way, it was a hard climb, but you have reached the summit and are ready to retire after many years of hard work. How long will you stay at the summit? Well, that's an easy answer. No sooner do you reach the summit then it's time to head back down. The descent is the tricky part. The last thing you want to do is lose money when you retire or, even worse yet, run out of money while retired.

So, how do we safely get down the mountain? Just like if we climbed a real mountain, the muscle groups we used to go up are not the same ones we use to come down. For starters, we need to use a different skill than we did going up the mountain. Whether you used a money manager or self-managed your funds on the way up, you want the added peace of mind that you won't run out of money on the way down, regardless of market performance. This can be done by rolling over your existing qualified plans into an annuity. By giving up some upside potential, you can add an optional rider for guaranteed lifetime income to your annuity to help provide income for the rest of your life, which assists your descent down the mountain. Some insurance companies offer this rider for as little as .75% per year. By purchasing this lifetime income rider, the insurance company will provide a stream of income for the rest of your life.

Think of it like setting up your own personal pension from a portion of your retirement savings. Many people choose to put pre-taxed funds into an annuity by rolling over their retirement account, and then, based on the annuity and rider they chose, their money should grow over time. However, not all income riders are created the same. Some offer large bonuses, others provide guaranteed percentage roll-up rates, and still others only let you draw income after a certain period of time.

The first thing you want to do is simply ask yourself: "Do you want to be exposed to market risk while coming down the mountain?" If your answer is, "No risk," then move to the second question: "How much liquidity, or access, to these funds do you need — some liquidity, mostly liquid, or are you not concerned about liquidity?" This question is easily answered if you are talking about qualified funds like your retirement savings. Often, liquidity is not a top concern because these funds are set aside for your retirement years due to additional tax implications on withdrawals depending on your age and circumstances when accessing these funds. Also, keep in mind that whatever you withdraw from a qualified plan will be taxed as ordinary income, even if you are over the age of 59 ½.

The third question is: "Do you want to focus on lifetime income or growth?" This is important because some people have plenty of retirement income and want the added peace of mind of their retirement savings' growth potential without risk to market loss, whereas many retirees want strategies in place to provide a steady income stream that can help maintain a lifestyle similar to their working years.

Once all these questions have been answered, identifying which path to take down the mountain becomes much simpler.

Checklist:
1. Do you want market risk?
2. How much liquidity do you need — some, mostly, or not worried?
3. Do you want to focus on income or growth?

The most common answer to the above questions is: "I want no risk, some liquidity, and I want to focus on income." If this is the path you want, then you are a strong candidate for an annuity with an income rider. The next step is to sit down with someone who focuses on retirement and not just someone who focuses on growth. This very well may not be the same advisor you have now. You want to make sure your advisor has a strong knowledge of annuities with income riders. These products change almost weekly, and keeping up with them can be a full-time job. If your advisor is doing other things as well, it could be more difficult for them to provide you the most accurate and up-to-date information on the strongest income riders currently available.

You worked hard going up the mountain. Not everyone makes it, but you did. This is something to be very proud of and excited about. However, you will only be at the summit for a brief time, and you need to start planning your path down before the descent. The best time to prepare is when you reach eligible retirement age or are close to 60. This is the age that most plans will allow you to rollover your current plan. This is called an "in-service distribution."

The path you take down the mountain is a very important decision and should not be taken lightly. Do your research to always make sure you understand the mechanics of the annuity. If you plan correctly and pick your path, then you will make it to the bottom and won't have to worry about losing the income you've created. Congratulations, you have now made it up the mountain to the summit and down safely.

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