

The Retirement Income Guide

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1. The Shift From Saving to Spending

For decades, the focus has been on growing your savings: contributing to your 401(k), IRA, and other accounts with the goal of building a solid foundation. But retirement isn't the finish line. It's the starting point of a different financial chapter: creating reliable income from what you've saved.

This shift requires a different mindset. It's no longer about what the market does. It's about what your plan does. The goal isn't to maximize returns. It's to create income that can weather market volatility, reduce tax drag, and adapt as your needs change.

Many well-funded retirees still feel uncertain about spending. A clear income plan brings structure, confidence, and the ability to use the wealth you've worked hard to build.

This guide helps you understand the key considerations in retirement income planning: the risks to manage, the decisions that connect, and the questions worth asking. It's a foundation for clear thinking, not a prescription.

2. Know Your Income Sources

Most people enter retirement with income coming from several sources. The key is understanding how each one works and how they fit together into a plan that supports your spending, minimizes taxes, and adjusts over time.

Common income sources:

- **Social Security:** Provides baseline income that lasts for life. The age you claim affects how much you receive, and when you claim affects how much household risk you're taking.
- **Pensions:** For those who have them, pensions offer guaranteed monthly income. Decisions like lump sum versus lifetime payout, or survivor benefit elections, require careful consideration.
- **Portfolio Withdrawals:** Your investments (IRAs, Roth IRAs, brokerage accounts) are typically a primary source of income. The withdrawal strategy you use affects both longevity of your assets and your tax situation.
- **Other Income:** Rental income, part-time work, annuities, and business income can all contribute to your retirement mix.

A successful income plan accounts for all of these, aligning the timing, tax treatment, and stability of each to your retirement needs.

3. Risk Management First, Optimization Second

The biggest shift in retirement planning is this: success is measured by durability, not by maximizing returns. Retirement income planning is risk management first, optimization second.

Three risks deserve particular attention:

Sequence of Returns Risk

One of the most overlooked risks in retirement isn't the average return on your portfolio. It's the order in which those returns occur. This is known as *sequence of returns risk*.

If poor market returns happen early in retirement (when you're also withdrawing from your accounts), your portfolio can be depleted much faster, even if the average return over time looks acceptable.

Example:

Imagine two retirees with identical portfolios, savings, and withdrawal rates. One experiences strong markets early, then weaker returns later. The other sees market losses early, then a recovery. Despite having the same average return, the second retiree is more likely to run out of money sooner.

Tax Drag

Many retirees are surprised to learn that taxes remain one of their biggest expenses, and sometimes they increase. Without planning, withdrawals from retirement accounts can push you into higher tax brackets, increase Medicare premiums, or cause more of your Social Security to be taxed.

The gross versus net reality: A \$60,000 withdrawal from a traditional IRA is not \$60,000 of spendable income. After federal and state taxes, it might be closer to \$48,000 to \$52,000. This distinction matters when planning how much income you actually need.

Tax planning is an ongoing discipline, not a one-time event. The goal is to reduce taxes over the course of your retirement, not just minimize them this year.

The Income Reserve Strategy

One of the most effective ways to manage market risk in retirement is through the use of an Income Reserve. This is a pool of stable, accessible assets set aside to fund your income needs, especially during market downturns.

The Income Reserve typically holds 5 to 6 years' worth of expected withdrawals in conservative investments, such as short-term bonds or cash equivalents. The rest of the portfolio remains invested for long-term growth.

Example:

A retiree who needs \$60,000 per year from investments might set aside \$360,000 (6 years of income) in stable assets. This provides the confidence to ride out market downturns without being forced to sell stocks at a loss.

This approach not only reduces anxiety, it helps preserve long-term growth potential by giving equity investments time to recover before they're tapped for income.

4. How Spending May Change Over Time

Not all retirement years look the same, and your income needs probably won't either. Some retirees spend more in the early years. Others find their needs stay relatively steady. The key is building a plan flexible enough to adapt.

Retirement is sometimes described in phases:

- **Early retirement:** Often the most active period. Some retirees travel more, take on home projects, or help adult children. Income planning needs to be flexible and liquid during this stage.
- **Middle retirement:** Spending often stabilizes. Travel may decrease. Routines settle in. Reliable income becomes the priority.
- **Later retirement:** Expenses may shift toward healthcare and potentially long-term care. Planning for rising medical costs and inflation becomes increasingly important.

These are patterns, not rules. What matters is understanding how your spending might evolve and making sure your plan can adjust.

5. Building Your Income Foundation

A strong retirement income plan isn't just about how much income you have. It's about how that income is structured. Understanding the role of guaranteed income versus portfolio withdrawals helps you create a more resilient and flexible plan.

Guaranteed Income: The Foundation

Sources like Social Security, pensions, and annuities provide reliable, predictable income, often for life. These are best used to cover essential expenses: housing, healthcare, groceries, utilities.

The more of your basic needs you can fund through guaranteed income, the less pressure you place on your portfolio to perform in volatile markets.

Portfolio Withdrawals: The Flexible Layer

Withdrawals from investment accounts (IRAs, Roth IRAs, brokerage accounts) give you control and flexibility. They allow you to bridge the gap between guaranteed income and your total spending needs. They also provide opportunities to manage taxes.

Strategic uses of portfolio withdrawals include:

- Filling gaps between guaranteed income and total expenses
- Blending Roth and traditional IRA withdrawals to manage taxable income
- Covering one-time or discretionary expenses like travel or home improvements

Coordinating the Two

Many retirees use a 'floor and ceiling' approach: guaranteed income forms the floor to cover non-negotiables, while investment withdrawals fill in above that as needed. This balance provides structure, reduces risk, and gives you the confidence to stay invested, knowing your foundational income is secure.

6. Taxes and Required Minimum Distributions

Taxes don't disappear in retirement. For many people, they remain one of the largest ongoing expenses. Without planning, withdrawals can push you into higher brackets, increase Medicare premiums, or cause more Social Security to be taxed.

How different income sources are typically taxed:

- **Traditional IRAs and 401(k)s:** Withdrawals are fully taxable as ordinary income.
- **Roth IRAs:** Qualified withdrawals are tax-free, making them a valuable tool for managing your tax bracket.
- **Brokerage accounts:** Capital gains and dividends may be taxed at lower rates, depending on holding period.
- **Social Security:** May be partially taxable depending on your 'provisional income.'

Smart withdrawal sequencing and Roth conversions during lower-income years can help reduce your lifetime tax burden. The goal isn't just to minimize taxes this year. It's to reduce taxes across your entire retirement.

Required Minimum Distributions (RMDs)

Depending on your birth year, you may be required to begin taking Required Minimum Distributions from traditional IRAs and 401(k)s at age 73 or 75. These withdrawals are fully taxable and can increase Medicare premiums or cause more of your Social Security to be taxed.

Planning ahead for RMDs (including using Roth conversions during lower-income years) can help reduce your lifetime tax bill and give you more flexibility later in retirement.

7. Integration: How Decisions Connect

One of the most important principles in retirement planning is this: *no decision is made in isolation.*

Every choice you make affects something else:

- **When you claim Social Security** affects how much household risk you're taking and how much you need to withdraw from investments.
- **How much you hold in your Income Reserve** depends on how much guaranteed income you already have.
- **Your withdrawal sequencing** (which accounts you tap first) affects your tax bracket, Medicare premiums, and how much of your Social Security is taxable.
- **Roth conversions in your 60s** can reduce RMDs in your 70s and give you more tax-free flexibility later.

A good retirement plan accounts for these connections. It's not about making each decision perfectly in isolation. It's about making decisions that work well together.

8. The Retirement Income Planning Worksheet

This worksheet helps you reflect on your retirement income strategy. Use it to identify gaps, clarify priorities, and determine which areas need further planning.

Core Planning Questions

1. What are your estimated monthly essential expenses in retirement?

2. What sources of guaranteed income will you rely on (e.g., Social Security, pensions)?

3. How much annual income will you need from your investment accounts?

4. Have you considered how to manage income during a market downturn (e.g., an Income Reserve)?

Yes No

Notes: _____

Integration & Tax Planning

5. How will your Social Security claiming age affect how much you need to withdraw from investments?

6. What will your estimated total income be in your first year of retirement (including Social Security, pensions, and withdrawals)?

7. Have you calculated whether your Social Security will be taxable based on your other income?

Yes No Not sure

Notes: _____

8. At what age will your Required Minimum Distributions (RMDs) begin?

Age 73 Age 75 Not sure

Notes: _____

9. Do you have a Roth conversion strategy for your 60s to manage future RMDs and taxes?

Yes No Not sure

Notes: _____

Risk & Flexibility

10. If markets drop 20% in your first year of retirement, what's your plan?

11. How do you expect your spending to change during early, mid, and late retirement?

12. What is your plan for unexpected expenses or long-term care needs?

Self-Assessment

13. On a scale of 1-5, how confident do you feel about your retirement income plan today?

1 (Not confident) 2 3 4 5 (Very confident)

14. What's your biggest concern or uncertainty about retirement income?

Next Steps

Based on your answers, where are you?

- I feel confident in my plan and know what to do next
- I have specific questions I need answered
- I'd like professional guidance to build or review my plan

Which areas need the most attention?

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