Ea$y Money – Retirement: Borrowing from, cashing out, retirement accounts

What it is: There is more than one approach to arranging your financial resources for retirement, each with advantages and disadvantages. Two key approaches are: 1) Systematic Sustainable Withdrawals and 2) a Retirement Pyramid. As you explore options you may find variations on these approaches as well.

How it works: The systematic sustainable withdrawal approach focuses on creating a steady stream of withdrawals from the investment assets you control, such as 401(k) and IRA accounts. The intent is to generate reliable on-going income to raise your level of living above that provided by Social Security, a traditional pension, or other fixed income sources.

The pyramid illustrates a second approach to retirement investing. If you follow this approach, you will allocate resources into three (or more) categories. The Base should include enough resources to provide for basic living expenses, and is made up of resources that provide extremely secure life-long income. Examples of resources that might be included in the base are: Social Security income, Traditional pension benefits, Income from annuity products, and secure rental income. The second level of the pyramid is made up of investments from which you will draw money for travel, gifts, a new vehicle, or other discretionary or flexible expenses. Since it is not essential to your basic lifestyle, this portion of your funds can be invested more aggressively within your personal risk tolerance. The tip of your retirement pyramid is Legacy and is made up of assets that you do not intend to liquidate during your lifetime; instead you intend to leave them to your heirs or to charities or other beneficiaries.

Why it matters? A key element of retirement investing relates to "dis-investing"—that is, deciding which assets to liquidate in order to provide retirement income. You would typically begin with a diversified portfolio established according to your preferred asset allocation and risk tolerance. That will usually mean that your assets are divided among several different types of investments. As you plan withdrawals, strategically choose which assets to sell so that you maintain your desired asset allocation.

Who should care? Few retirees have enough assets that they can live on the earnings (interest and dividends) without dipping into their principal. Many retirees rely on professional advice in managing their retirement assets, because the decisions can be complex and retirees rely on these assets for the rest of their lives. If you hire a professional adviser, research your choice carefully. You wouldn't buy a car or even a major appliance without shopping around; this decision is critical to your well-being, so give it the attention it deserves.

For more information:

- Iowa State University Extension and Outreach Money Blogs tips
  http://blogs.extension.iastate.edu/moneytips/
- Iowa State University Extension and Outreach publication PM1825A, *Retirement Transitions: Strategies for Retirement Income -- Retirement: Secure Your Future*
- Iowa State University Extension and Outreach website at
  www.extension.iastate.edu/humansciences/