YOUR WEALTH JOURNEY — NAVIGATING LIFE'S FINANCIAL MILESTONES

Cash-Flow Planning for Retirement

A five-step guide to generating retirement income efficiently and effectively

Once you retire, you need to look at financial management in a whole new light. No longer is the goal just earning and saving money and increasing your net worth—it is now about generating income ("paying yourself") from the assets you have spent years accumulating while also maximizing the other retirement income sources available to you.

Before you start drawing down your accounts, consider taking steps to ensure that you are generating income as efficiently and effectively as possible. Here is a five-step roadmap for cash-flow planning in retirement.

Think Big Picture—Your Goals and Plans

Before you determine how you can generate an income stream in retirement, think about your long-term goals. This includes asking questions such as:

- What do your retirement plans look like? How much income will you need to generate to support those goals?
- How will your housing costs shift? Do you plan to buy a second home? Will you be downsizing from your current home?
- How much do you hope to leave behind to heirs as a legacy? And how important is this to you?
- What are your philanthropic goals? Do you want to support those charities while you are alive, or do you want to wait until your death to make most of those contributions?

The answers to questions like these will help you determine how much of your assets you should allow yourself to spend during your retirement, and how much you want to preserve for your heirs.

Consider How Your Spending Will Change

Look at how your spending patterns are likely to shift in retirement. Many people have ambitious goals for retirement, such as traveling the world or pursuing a hobby or passion. These activities can cause many people to see a spike in their spending after they stop working.

In fact, retirees often have a U-shaped spending curve over the course of retirement. They spend more in the early years of retirement when they are still active, but spending declines as they get older and less active. Spending may then rise again near the end of their lives as a result of increased healthcare and long-term-care costs.

Consider compiling a list of your anticipated expenses so you have a realistic picture of how much money you will need to pay for both your major plans and any ongoing expenses. And do not forget to factor in two potentially big-ticket items:

Healthcare:

It makes sense to factor healthcare into your income-generation needs and perhaps even set aside additional money to cover large, unexpected healthcare costs. Starting at age 65, you can enroll in Medicare. You will have access to several different kinds of Medicare plans, and your William Blair wealth advisor can help you identify which plan will best meet your needs while looking at how it will affect your out-of-pocket expenses. Note: you could face a penalty if you do not enroll when you first become eligible.

Long-term care:
You will also want to factor in the potential future need for long-term care and other related expenses later in life. The median monthly cost of a room in an assisted living facility was about $5,350 (or about $64,200 annually) and the cost of a home health aide was about $6,292 (or about $75,504 annually), according to Genworth Financial; a private room in a nursing home costs more than $9,700 a month (or $116,000 annually).[1]

Take Inventory of Your Retirement Income Sources

You will likely have several different potential sources of income in retirement. These can include:

- Taxable investment accounts
- Tax-deferred retirement accounts, such as 401(k) plans or traditional IRAs
- Roth IRAs
- Social Security
- Deferred compensation, restricted stock, or other forms of incentive-based compensation for corporate executives
- Defined benefit plans (traditional pensions)

Each type of retirement income is subject to different regulations and tax implications. For example:

- Tax-deferred retirement plans generally require you to start taking required minimum distributions (RMDs) by age 73 or 75, depending on your year of birth
- You can start taking Social Security at age 62, or you can delay claiming it until age 70 to increase your monthly benefit amount (you cannot delay beyond age 70)

Your William Blair wealth advisor can guide you through the regulations and tax considerations that govern different types of retirement income sources.

1 Genworth *"Cost of Care Survey."*

Plan How You Will Tap Your Retirement Income Sources

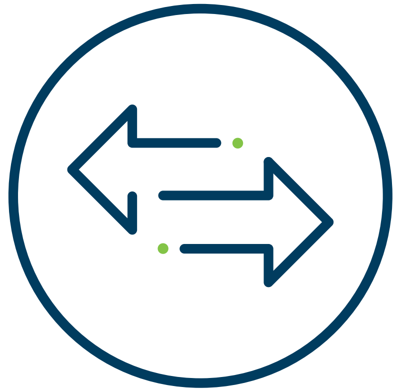
Once you understand the rules and tax consequences of each income source, create a plan for the order in which you will draw them down.

Many retirees first draw from their taxable brokerage accounts in retirement, because they typically want to continue receiving benefits from their tax-deferred and Roth accounts for as long as possible. RMDs mandate that you begin drawing down from your tax-deferred accounts by age 73 or 75, depending on your year of birth.

Roth IRAs require no withdrawals during the original account owner's lifetime and they can be an ideal vehicle for leaving assets to heirs. Many investors tap their Roth IRAs last or never during retirement.

Also consider which assets within your accounts make sense to draw down and in which order. This is especially true when withdrawing from taxable brokerage accounts because different holdings can have vastly different capital gains tax implications.

You should couple these decisions with your overall asset-allocation strategy and risk tolerance. Reducing your exposure to certain asset classes or types of investments could significantly affect the risk profile of your portfolio. And as you age, your risk tolerance may shift along with your investment timeline.



Be Ready to Shift Your Mindset

Many retirees are not fully prepared for the realities of retirement income planning. As you move out of the accumulation phase and into the draw-down phase, you will likely see your account balances drop. This may be unsettling for those who have spent years watching their nest egg grow.

Moreover, you may need to lower your risk exposure during retirement to reduce volatility or the possibility that a major market downturn will affect your income. Remember, as your investment time frame shortens, you generally have less capacity to absorb market losses.

Retirement is an exciting life event for many people, and how effectively you manage your assets and cash flow can have a major impact on your lifestyle and your peace of mind. Careful planning can help ensure that you spend this next chapter of life focused on pursuing your dreams rather than worrying about funding them.

Keep in mind that many of these topics involve complicated tax and legal considerations, so working with your William Blair wealth advisor can be helpful as you plan for your retirement.

Contact Us:

Please reach out to your William Blair wealth advisor or contact us at *pwm@williamblair.com*.

September 2024