

Financially InKlein'd™

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Create and Optimize Your Retirement Income

We're all familiar with the concept of an investment portfolio. **Wikipedia** defines it as "an appropriate mix or collection of investments held by institutions or a private individual." It explains that "holding a portfolio is part of an investment and risk-limiting strategy called diversification."

How many of us, however, have heard of a "retirement income portfolio," or the term that I have coined, "*Financial Independence Income Portfolio™*?" I would suspect that not many people are familiar with these terms.

I will simply use "income portfolio" for the remainder of this article to describe this innovative planning strategy and explain why it should be the cornerstone of every financial independence plan for all individuals ten years preceding or following retirement.

What Is An Income Portfolio?

Whereas an investment portfolio uses a mix of assets including stocks, bonds, and other investment securities with the goal of minimizing risk, an income portfolio uses income streams.

The income streams are generated by a customized blend of fixed income annuities designed to provide predictable inflation-adjusted income as well as tax efficiency for the non-retirement portion of one's portfolio.

Two types of fixed income annuities, both offered by life insurance companies, can, and generally should, be used: immediate and deferred.

Immediate Income Annuities

Single premium income annuities, or "SPIAs," make periodic payments, typically monthly, for either a specified number of months or for an individual's lifetime or joint lifetimes as applicable. The payments generally begin one month after purchase of a SPIA, hence the term "immediate."

Deferred Income Annuities

While the use of SPIAs is widespread, deferred income annuities, or "DIAs," are currently only offered by a handful of life insurance companies. Like SPIAs, DIAs pay periodic income for a specified period of time or over one's lifetime or joint lifetimes as applicable. Unlike SPIAs, the start date of the payments is deferred for at least 13 months from the date of investment.

Why an Income Portfolio Plan?

It's a fact of life that, unlike our parents' generation who could depend on a monthly pension supplemented by Social Security, most individuals retiring today don't receive a pension. Consequently, although no small task, we must create, manage, and protect our own income portfolio plans.

A well-diversified, professionally-managed investment portfolio can enable you to pursue various financial goals, including financial independence, in the accumulation stage of your life.

As you approach, and move into, retirement, a customized income portfolio plan is essential for enabling you to predictably close the gap between your projected income needs and your projected income sources without worrying about, and being dependent upon, the gyrations of the stock market.

Without such a plan, in addition to not matching your income sources to your income needs, you expose yourself to "withdrawal drag" throughout your non-working years. This phenomenon occurs whenever you take distributions from your investment portfolio during market downturns, forcing you to liquidate more investment shares than you would otherwise need to do when the stock market is performing well.

Building Your Income Portfolio Plan

How do you build an income portfolio plan? This definitely falls under the "Don't try this one at home" category. It requires the skills and expertise of a professional income portfolio planner to perform the calculations and to do the research needed to arrive at the optimal choice, duration, and combination of SPIAs and DIAs to maximize your after-tax income while minimizing your investment.

If you are ten years before or after retirement and would like to create a predictable, inflation-adjusted, tax-efficient income stream to close your income gap without worrying about stock market fluctuations, call me.