

In a world where individuals are now more responsible for decisions about financing their retirement, careful preparation is vital. One key element to consider is how you plan to spend down your assets so they will last as long as you do.

You'll need to determine how much money it will take for the retirement lifestyle you want. Some financial experts say you'll need somewhere around 70 percent of your pre-retirement income to live comfortably in retirement. However, if you expect to replace work-related expenses with travel, entertainment, or other activities, you may need more.

If you remain in good health, your retirement could last 30 years or longer, so your spend-down plan should be well thought-out. Among the most important decisions are those involving Social Security, investment and withdrawal choices of retirement assets, and what to do with your home.

Individual circumstances, of course, will help determine the best choices. But here is some general guidance, as well as actions to consider, as you plan your retirement spend-down.

When should I claim Social Security?

Social Security provides a government-guaranteed, inflation-adjusted, lifetime income stream. Eligibility for full retirement benefits depends on when you were born. People born before 1938 have full retirement at age 65. Those born after 1959 have full retirement at 67. If you were born between 1938 and 1959, your full retirement age will be between 65 and 67.

It is possible to begin receiving Social Security retirement benefits as early as age 62, but monthly payments will be reduced – perhaps substantially, depending on how soon they begin. Benefits for your spouse or survivor could also be affected. You can increase your monthly benefit by delaying claiming up to age 70.

Although individual needs and desires will vary, for many people the best approach for a financially secure retirement is to delay both retirement from work and the start of Social Security benefits until the full Social Security retirement age is reached. Factors affecting the best approach for you include your health and your other sources of income.

Action Step:

- Use the Social Security Administration's online calculators. Find your normal retirement age and estimate your monthly benefit at www.ssa.gov/planners/calculators.htm.
- Consider whether delaying retirement a year or two past the full retirement age might be in your best interest.

How should I allocate my assets?

Currently, many investors place a large portion of their savings in short-term deposits and hold no stocks. Often it is more advantageous to hold a diversified portfolio that includes stocks and bonds in addition to cash. People who are very secure financially may be more comfortable with more risk in the stock market, but for those seeking more security, there are safer options such as inflation-protected bonds. In general, you should moderate the overall risk in your portfolio as you near retirement to protect your retirement savings.

Action Steps:

- Consider investing your money in a diverse group

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of stocks, bonds, and cash funds appropriate to your level of assets and comfort with risk.

- Review Money Matters Tip Sheet, “Investment Tips,” at www.aarp.org/orderfinancialpubs.
- Consider consulting a reputable financial planner for advice on the allocation of your savings. Review Money Matters Tip Sheet, “Working with a Financial Planner,” at www.aarp.org/orderfinancialpubs.

Should I annuitize my retirement assets?

Annuities provide a regular scheduled payment from your savings and can help you achieve the retirement lifestyle you desire without running out of money. However, relatively few retirees use annuities, viewing them as risky or inappropriate.

You should consider annuitizing enough of your retirement savings to cover your basic, recurring living expenses (e.g. utilities, rent/mortgage, food, medicine, etc.) and to give yourself a steady “paycheck” during retirement. Annuities come in various forms. Options may include inflation protection or a variable interest rate after a certain number of years.

An annuity is not appropriate for someone with little in savings, or someone with a large share of pre-retirement income already replaced by Social Security. The higher your retirement income, the smaller the portion made up by Social Security. Someone with a lower annual pre-retirement income will have a larger percentage of that income replaced by Social Security.

Action Steps:

- Use AARP’s online Retirement Planning Calculator at www.aarp.org/money to figure out all your sources of retirement income to help you decide if an annuity is right for you.
- Compare the costs and benefits of annuities with other options for retirement income. You may prefer to keep your money in savings accounts or investments (including real estate) where you feel you have more control and easier access to it.
- Determine which type of annuity offers the most reliable income on the best terms for your needs. For more information on annuities, review the Money Matters Tip Sheet, “Annuities,” at www.aarp.org/orderfinancialpubs.

What should my rate of withdrawal be?

When deciding how to spend your nest egg, careful planning is needed to ensure you won’t run out of money in the next 20 to 30 years. This decision should be made only after determining whether to annuitize your retirement savings. Some experts recommend that you spend only interest and dividends, while preserving the capital in your savings.

However, it is important to be flexible when determining your withdrawal amounts. In tough economic times, you may want to withdraw a smaller percentage of your savings, if possible. When the returns on your investments improve, you can increase your withdrawals. Given the fluctuating nature of this income stream, consider pairing this changing income stream to variable or lifestyle expenses, such as gifts, vacations, etc.

Action Step:

- Calculate an appropriate percentage of your savings to spend in a year, based on realized investment returns. Consumption should be cut when returns are worse than expected and increased when returns are better than expected.

What should I do with my home or mortgage?

For many people approaching retirement, a key decision on the path to financial security is what to do with their home. Some will look for a mortgage with better financial terms. Others may decide to sell and downsize to a home that is less costly, easier to maintain, or more appropriate to their physical abilities. Many homeowners ultimately decide to retain ownership until they get sick or a spouse passes away. For most, it is best to enter retirement debt-free, owning your home free and clear.

If you are 62 or older, you may want to consider a reverse mortgage as a way to help with expenses. Under such arrangements, the bank gives you money -- as a lump sum, monthly payment, or line of credit. The new mortgage must be paid when you move, sell, or die. This is a complicated and sometimes expensive transaction, so make sure you understand all the pros and cons before committing to such a contract.

Action Step:

- Decide whether you want to have a mortgage in

retirement. Review Money Matters Tip Sheet, “Mortgages,” at www.aarp.org/orderfinancialpubs.

Summary of Key Recommendations

Issue	What Many People Do Now	Conventional Wisdom	Our General Guidance
When to Claim Social Security	Claim as soon as possible.	Delaying retirement may be risky.	Delaying retirement and Social Security benefits until your full retirement age will result in higher monthly payments for life.
Asset Allocation	Place a large portion of wealth in short-term deposits and hold no stocks.	Rebalance in favor of bonds as you age.	The most favorable stock portfolio allocation depends on your tolerance of risk. In general, moderate your risk as you near retirement to protect your retirement savings.
Annuities	Seldom use voluntary annuities.	Little attention to annuities.	After factoring in Social Security and pension income, annuitize a sufficient part of your retirement savings to cover your remaining recurring living expenses. Consider inflation-protected annuities.
Withdrawal Rate	Varies widely.	Don’t withdraw more than 4 percent of your savings in the first year.	Be flexible when determining withdrawal amounts. Your rate should respond to realized returns on your assets.
The House	Retain ownership until ill health or death of a spouse, then sell.	Little attention is paid to the home.	The best scenario in retirement is to own your home free and clear. Some households may consider reverse mortgages. ¹

(Footnotes)

¹Reverse mortgages are a way of tapping housing equity for non-housing use while still living in the house. Households should note that a dollar of housing equity spent on non-housing use is a dollar plus interest in fees that will be unavailable on the eventual sale of the home. Households preparing for retirement may not want to regard housing wealth as a substitute for saving in financial assets.