Planning for Decumulation

We have over 25 years of experience helping generate income and mitigate longevity risk to help your nest egg last the rest of your lifetime.

An Introduction to the Decumulation Phase

When most people think of retirement, the first thing that comes to mind is saving. But retirement is like a coin - it has two sides. Instead of heads and tails, the retirement "coin" has accumulation on one side and decumulation the other. Accumulation gets the most press and is the piece on which most financial advisors spend their time. Although accumulation is important, it is still only one side of the coin.

Do you fear outliving your savings?

Most financial advisors, tend to focus on the accumulation side - helping people grow their wealth. To that end, most readily available investment and planning information, centers on accumulation.

Decumulation when addressing it, tends to be a bit more complex. The rationale is, during the accumulation phase, market fluctuations and investment risks can be smoothed over time. During decumulation, there is less room for error. A decumulation strategy can help ward-off the top fear of most retirees: outliving savings. At AmeriFlex® Financial Services, we provide every bit as much focus on the decumulation phase as we do accumulation strategies.

The fear of outliving savings is so great among retirees that it often overshadows the fear of death (61% vs. 39%)[1]. When we think of living out our golden years, it certainly should not include images of waking in the middle of the night worrying about running out of money.

Having a plan that coordinates the receipt of income and retirement benefits to offset expenses can help alleviate fears of outliving your money. It allows you to structure your portfolio to provide both income and growth. This can possibly prevent you from making poor payout decisions, during market downturns.

Many Baby Boomers have overlooked the need for growth in their portfolios throughout retirement. Boomers start to shift towards more conservative investments as retirement nears. Many retirees look to traditional fixed income strategies to provide the cash flow needed to "keep the lights on" throughout retirement. What keeps them up at night, is the worry that those investments aren't keeping pace with inflation and unforeseen rising expenses, such as healthcare costs.

Where once advisors sought fixed income investments for retirees, these traditional ideas may no longer be able to offer enough reward to justify their risk. We strive to find alternatives to bonds that produce income.

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One strategy we recommend is the use of "income silos," which have many of the same attractive features of traditional fixed income investments – they can provide income and may offer more predictable returns. As interest rates begin to climb and bond duration becomes important, bonds may face challenges. The potential to be resilient during times of rising interest rates and economic downturns makes this approach appealing. It may help mitigate risk by diversifying your retirement portfolio while also providing the opportunity for capital gains.

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Justin is President of AmeriFlex® Financial Services. He has been a member of the AmeriFlex® team for over 10 years. He is a CERTIFIED FINANCIAL PLANNER™ (CFP®), holds the Certified Retirement Counselor (CRC®) designation, the California Life Underwriter (CLU®) designation, and is a member of Financial Planning Association, Santa Barbara Estate Planning Council and an instructor of finance courses at Santa Barbara City College.

Consider the following pros and cons of different investments:

Bonds: While bonds are an important part of a balanced portfolio as a fixed income security, in a rising interest rate environment, the price of bonds may decrease. The duration and quality of bonds are critical.

Equities: During the accumulation phase, there may be more tolerance for market volatility. However, this may not be the case in the decumulation phase.

Cash: "Cash is King" except for when it is not earning enough to keep up with inflation. However, keeping cash in the bank may help you sleep better at night.

Alternatives: These investments may provide income and improve portfolio efficiency as they have low historical correlation in comparison to traditional asset classes. While there is the potential for long-term growth, these investments are less liquid than traditional investments and are therefore considered riskier.

Our AmeriFlex® team takes pride in providing a holistic approach to your financial life. We focus on all the financial levers, and when it comes to retirement that includes accumulation and decumulation. As you begin the next phase of your life, do so with confidence in your ability to balance your expenses and income. We are here to help.

1 http://www.aarp.org/work/retirement-planning/info-06-2010/running_out_of_money_worse_than_death.html

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You have spent a lifetime accumulating a nest egg for retirement. As you prepare for the next stage in your life, you face the challenges of low yields from banks, higher federal and state taxes, when to take Social Security, and increased medical costs. AmeriFlex is prepared to help you face these risks and protect your nest egg by building a durable income stream to match your expenses in your retirement years. You don't have to face these challenges alone - we can help.

To learn more, please call 805.898.0893 or visit us at www.ameriflex.com.