COMPASS PLANNING ASSOCIATES

Fee-Only Financial and Investment Planning

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On Course

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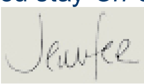
Welcome to the last installment in our three-part series on retirement. This month we're giving you some tips to help you handle withdrawals for good retirement cash flow. If you missed Part 1 - Retirement Savings, click here, and for Part 2 - Social Security, click here.

If you would like help in your retirement planning, remember we're here to help you stay *On Course*!



-Jennifer Lane, CFP

Withdrawals for Retirement Cash Flow

First, it's usually more difficult to handle cash flow in retirement than when you're working. And, second, understanding tax consequences is the key in managing your withdrawals.

Your nest egg needs to last

- While your paycheck probably acted as a cap on your spending, once you retire, you're planning withdrawals from a much larger pot than your checking account.
- While the large balance can seem enticing, expenses can get out of control if you're not careful.
- Avoid this by setting up a retirement paycheck from your nest egg to your regular checking account. With a little planning, you can also save on taxes.
- As you did when you were working, keep an liquid emergency account of 6-12 months of expenses.

Determine your cash flow

Do this well in advance of retirement so you'll retire knowing you'll be financially secure.

- Review your living expenses and decide how much income you need for regular monthly expenses.
- Calculate your non-monthly expenses, including real estate taxes, tax payments, travel, holiday expense, medical costs, and gifts. Convert the total to a monthly amount.

In This Issue

Jennifer's Hint

Use a fully liquid passbook or savings account for the money you want to have quick access to. If you're holding a high balance, make sure you have FDIC coverage and are getting a good interest rate on the account. Stocks and stock mutual funds or ETFs are liquid, but you don't want to have to sell in a down market to deal with an unexpected expense.

Get more tips in Jennifer's book

- The combination of the two needs to be less than you could afford based on your nest egg income, Social Security, and pension (if you have one) because of emergencies and unplanned expenses.
- Assign a checking or brokerage account with checking option to use for monthly expenses.
- Assign or set up an account with checking or online bill pay to receive Social Security and investment income each month.

Save on taxes
The goal is to pay as few taxes as possible by making withdrawals from the accounts already generating taxable income before IRA or 401(k) withdrawals.

- Reorganize your accounts by consolidating retirement plans and IRAs together then set up an electronic transfer link between your checking and your investments as well as your IRA.
- Spread your asset allocation across all of the accounts with more of the stocks in the taxable accounts and more of the fixed income and cash in the sheltered retirement accounts.
- Make withdrawals from accounts already generating taxable income first and then from your retirement accounts until you meet your need for the year.
- In January, recheck the asset allocation and decide which accounts you'll be withdrawing from for the year.

Q&A

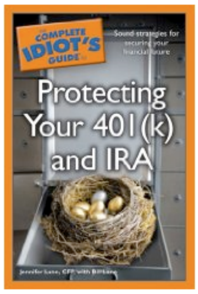
Q: My husband and I have just retired! I've always managed the money in the family because of his work schedule. Any advice on how to handle our finances now that he has time to be involved?
-- Chris, Harvard

A: Chris, congratulations and enjoy your retirement! The very best way to manage everything going forward - no matter who actually pays the bills - is to institute what I call M&M (the monthly money meeting). The process of monthly meetings puts some structure around your money management, both your month-to-month planning and longer-term financial planning tasks such as asset allocation. Include discussion of monthly income and expenses, upcoming expenses, and long-term spending goals. And, since you're newly retired, be sure to talk about whether the cash allowances you're each taking are enough to cover entertainment expenses and extras.

What's New

- Jennifer talked about buying a house in and around Boston on a recent NECN show. Click here to watch the segment on her blog.
- Follow us on Facebook! Visit www.facebook.com/AskJennifer and like us!
- Jennifer appears on NECN every other Monday morning at 9:30 am in addition to her Tuesday 6:30 pm appearance.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our **fee-only, client-centered approach** provides education and guidance for achieving financial goals and dreams.



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NAPFA

Social Security

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