Painting Your Retirement Masterpiece

Famous Impressionist artist, Claude Monet, said, "Color is my day-long obsession, joy and torment." Many retirees can relate to Monet if their retirement income relies too heavily on the stock market. These retirees can find themselves obsessed with logging into their accounts and watching the constant dance between red, declining value, and green, increasing value, of their investments. The day the retirement cake was cut and the desk was packed and loaded into the car, was also the day the steady paycheck stopped being deposited into the bank account. This can be a scary time for many! When making this transition there are many layers and brushstrokes that need to be mastered to bring all the angles and colors together to create the retirement you have dreamed of. Integrating the below strategies may help to bring financial peace of mind so you can enjoy retirement instead of obsess over the ups and downs of the market. Every plan is different, so talk to your financial advisor to see if these strategies may work with your retirement income plan.

Have a Cash Reserve at Retirement

Most retirees find if they have access to two years' worth of retirement income need when they retire, it helps bring them peace of mind. But it is really doing more than that! By having access to cash or cash equivalents (line of credit, cash value life insurance, CDs, money markets, etc.), a retiree can avoid selling market-invested assets if there is a market decline. This is especially important early in retirement because having to sell when the market is low, with so many years yet to go that you need retirement income, can negatively impact your long-term plan. Imagine if you had retired February 19, 2020? This was the day before the market started declining. No one could have predicted a worldwide pandemic! If you had to pull money from your investments in early-to-mid 2020, you would have been forced to sell when your account value was down as much as 34%. Instead, imagine you had access to cash or cash equivalents and, instead of pulling from your investment account in 2020, you used the cash resources instead for a few months, keeping your retirement account invested when the market rebounded with a 75%+ surge! Don't stuff too much cash in that mattress but having access to temporary cash to cover average market declines can be an integral part of your overall plan!

Match Fixed Expenses with Guaranteed Income

One key strategy for retirees is looking at what your fixed expenses are when you retire. These are expenses that you have to incur such as a mortgage, taxes, car payment, utilities, groceries, etc. Once you know what you need on a monthly basis to keep the lights on and food on the table, then look at your sources of retirement income. Add up what you are receiving from social security, pensions, annuity payments, etc. These are all guaranteed sources of income. If these don't cover your fixed expenses, a smart strategy could be to replace the bonds in your retirement account with an income annuity. Income annuities are similar to creating your own pension. Instead of your employer funding it, you fund it from your retirement accounts. You give a portion of your savings to an insurance company and, in return, they guarantee you a set amount of income for the rest of your life. There are many intricacies with these products, so make sure you do your homework! Things to consider if you are thinking about an annuity are: Does it have a death benefit? Should I buy a single life or joint life annuity that continues for my spouse if I pass first? Is the interest paid dependent on the stock market? (this may not be your best bet since this is meant to be steady and guaranteed to cover your fixed expenses!). What are the costs associated with buying the annuity? Work with your financial planner to see what may be most appropriate for your specific plan.

Cash Reserve + Guaranteed Income = Ability to Invest More Aggressively

Once you have your two-year cash reserve and your fixed expenses are covered by guaranteed income, you will be less dependent on that red and green dance of the stock market! The funds you still have invested are meant to cover discretionary expenses (ex. Vacations, home remodels, etc.). Because you have flexibility with these expenses, your retirement account that will fund them can stay more aggressively invested if you choose. This can allow for those funds to grow over time at a potentially higher rate because you won't be forced to sell when the market is low.

Taking a nest egg and turning it into a retirement income stream is complex and there are many things to consider. Getting close to retirement? Now is the time to connect with a financial planner to make sure you have all the pieces in place to paint your retirement masterpiece!

Do you have a specific question? E-mail me at: anne.e.schutt@nm.com and we can include your question in an upcoming article.

All investments carry some level of risk including the potential loss of all money invested. Past performance is no guarantee of future performance. No investment strategy can guarantee a profit or protect against loss. This publication is not intended as legal or tax advice. Financial Representatives do not render tax advice. Consult with a tax professional for tax advice that is specific to your situation.

Northwestern Mutual (NM) is the marketing name for The Northwestern Mutual Insurance Company and its subsidiaries in Milwaukee, WI. Anne E. Schutt is an Associate Insurance Agent of NM and Northwestern Long-Term Care Insurance Company. Investment brokerage services provided as a Registered Representative of ***Northwestern Mutual Investment Services, LLC****, a registered investment adviser, broker-dealer, and member of FINRA and SIPC. Investment advisory services provided as an Associate Advisor of Northwestern Mutual Wealth Management Company. Anne Schutt uses Waite Financial Group as a marketing name for doing business as an associate agent of Northwestern Mutual. Waite Financial Group is not a registered investment adviser, broker-dealer, insurance agency or federal savings bank.*