Paying the Bills: Potential Sources of Retirement Income

By Greg Patterson

Planning your retirement income is like putting together a puzzle with many different pieces. One of the first steps in the process is to identify all potential income sources and estimate how much you can expect each one to provide.

Social Security. According to the Social Security Administration (SSA), more than 8 out of every 10 people aged 65 or older receive Social Security benefits. However, most retirees also rely on other sources of income. For a rough estimate of the annual benefit to which you would be entitled at various retirement ages, you can use the calculator on the Social Security website, ssa.gov. Your Social Security retirement benefit is calculated using a formula that takes into account your 35 highest earnings years. How much you receive ultimately depends on a number of factors, including when you start taking benefits. You can begin doing so as early as age 62. However, your benefit may be approximately 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born). Benefits increase each year that you delay taking benefits until you reach age 70. As you're planning, remember that the question of how Social Security will meet its long-term obligations to both baby boomers and later generations has become a hot topic of discussion. Concerns about the system's solvency indicate that there's likely to be a change in how those benefits are funded, administered and/or taxed over the next 20 or 30 years. That may introduce additional uncertainty about Social Security's role as part of your overall long-term retirement income picture and put additional emphasis on other potential income sources.

Pensions. If you are entitled to receive a traditional pension, you're lucky; fewer Americans are covered by them every year. Be aware that even if you expect pension payments, many companies are changing their plan provisions. Ask your employer if your pension will increase with inflation, and, if so, how that increase is calculated. Your pension will most likely be offered as either a single or a joint and survivor annuity. A single annuity provides benefits until the worker's death; a joint and survivor annuity provides reduced benefits that last until the survivor's death. The law requires married couples to take a joint and survivor annuity unless the spouse signs away those rights. Consider rejecting it only if the surviving spouse will have income that equals at least 75% of the current joint income. Be sure to fully plan your retirement budget before you make this decision.

Work or other income-producing activities. Many retirees plan to work for at least a while in their retirement years at a part-time job, a fulfilling second career, or consulting or freelance assignments. Obviously, while you're continuing to earn, you'll rely less on your savings, leaving more to accumulate for the future. Work also may provide access to affordable health care. Be aware that if you're receiving Social Security benefits before you reach your full retirement age, earned income may affect the amount of your benefit payments until you do reach full retirement age. If you're covered by a pension plan, you may be able to retire, then seek work elsewhere. This way, you might be able to receive both your new salary and your pension benefit from your previous employer at the same time. Also, some employers have begun to offer phased retirement programs, which allow you to receive all or part of your pension benefit once you've reached retirement age, while you continue to work part-time for the same employer. Other possible resources include rental property income and royalties from existing assets, such as intellectual property.

Retirement savings/investments. While working, you hopefully have saved through retirement accounts such as IRAs, 401(k)s or other tax-advantaged plans, as well as in taxable accounts. Your challenge now is to convert your savings into ongoing income. There are many ways to do that, including periodic withdrawals, choosing an annuity if available, increasing your allocation to income-generating investments, or using some combination. Make sure you understand the tax consequences before you act.

Some of the factors you'll need to consider when planning how to tap your retirement savings include:

- *How much you can afford to withdraw each year without exhausting your nest egg.* You'll need to take into account not only your projected expenses and other income sources, but also your asset allocation, your life expectancy, and whether you expect to use both principal and income, or income alone.
- *The order in which you will tap various accounts.* Tax considerations can affect which account you should use first, and which you should defer using.
- *How you'll deal with required minimum distributions (RMDs) from certain tax-advantaged accounts.* After age 70½, if you withdraw less than your RMD, you'll pay a penalty tax equal to 50% of the amount you failed to withdraw.

Some investments, such as certain types of annuities, are designed to provide a guaranteed monthly income (subject to the claims-paying ability of the issuer). Others may pay an amount that varies periodically, depending on how your investments perform. You also can choose to balance your investment choices to provide some of both types of income.

Inheritance. An inheritance, whether anticipated or in hand, brings special challenges. If a potential inheritance has an impact on your anticipated retirement income, you might be able to help your parents investigate estate planning tools that can minimize the impact of taxes on their estate. Your retirement income also may be affected by whether you hope to leave an inheritance for your loved ones. If you do, you may benefit from specialized financial planning advice that can integrate your income needs with a future bequest.

Equity in your home or business. If you have built up substantial home equity, you may be able to tap it as a source of retirement income. Selling your home, then downsizing or buying in a lower-cost region and investing that freed-up cash to produce income or to be used as needed is one possibility. Another is a reverse mortgage, which allows you to continue to live in your home while borrowing against its value. That loan and any accumulated interest is eventually repaid by the last surviving borrower when he or she eventually sells the home, permanently vacates the property or dies. (However, you need to carefully consider the risks and costs before borrowing. A useful publication titled "Reverse Mortgages: Avoiding a Reversal of Fortune" is available online from the Financial Industry Regulatory Authority.)

If you're hoping to convert an existing business into retirement income, you may benefit from careful financial planning to minimize the tax impact of a sale. Also, if you have partners, you'll likely need to make sure you have a buy-sell agreement that specifies what will happen to the business when you retire and how you'll be compensated for your interest. With an expert to help you identify and analyze all your potential sources of retirement income, you may discover you have more options than you realize.

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At the Aquarium

By Barbara Milhaven

A look back at the director's first year—and a look ahead

Year 2015-16 was a year of reorganization, transferring the state's aquariums from the NC Department of Environment and Natural Resources to the NC Department of Natural and Cultural Resources. This meant a lack of a proper budget when Michael "Hap" Fatzinger came to take over the helm of the North Carolina Aquarium at Pine Knoll Shores in March 2015.

In spite of this challenge, Hap's first year was a good one. With his congenial personality, he soon had a good working relationship with the staff. His attempt to be familiar with all of the volunteers as well proved more difficult since there are approximately 150 volunteers who come in shifts on different days. Some of them have been serving the aquarium for more than 10 years.

Hap was very pleased with the success of the 2015 Venom Exhibit and the fact that the aquarium had over 375,000 visitors. The aquarium also had an active, successful outreach program.

Sea turtle rescue and rehabilitation proved to be another challenging, essential and ongoing project. The 2015 winter was very warm through the New Year, but on January 5, ocean water temperatures plunged, which caused many sea turtles to experience distress.

Severely cold weather causes sea turtles to stop swimming and just drift. Many die and wash ashore on incoming tides; others become dinner to predators. The lucky ones, referred to as "cold-stunned," are rescued by aquarium staff and volunteers and taken to the aquarium where staff and volunteers keep them warm to raise their temperature and perform medical treatment. Cosmetic treatment, such as shell barnacle removal, may also be performed.

Some sea turtles that recover sufficiently are released back into the sea or sent south to be released where the waters are warmer. According to the *North Carolina Aquariums 2015 Annual Review,* by the end of January 2016 over 2,000 sea turtles had washed up on the beaches of North Carolina.

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