Income Allocation Plus Asset Allocation:
A Winning Combination and Why Both are Needed

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How much do you worry about outliving your assets after you retire? What if you could live off 25% to 50% of your portfolio and feel secure about doing whatever you wanted with the other portion, without fear of running out of money?

Most people who have all their assets under active management do not know there may be a better way to provide income and wealth management in retirement.

An income allocation strategy may be that better way. A strategy based around your income needs can help manage some important risks more effectively than standard asset allocation strategies.

What's more, by eliminating the need for you to use every dollar of your savings to generate an income in retirement, an income allocation strategy can free up some of your assets for activities or purchases you dreamed of doing, but perhaps put off for the fear of running out of money.

Managing risks

Consider that a high percentage of retirees do not have pensions to replace the salary from their working years with a guaranteed income stream. The goal of an income allocation strategy is to replace the peace of mind offered by a pension by using the lowest possible portion of their savings. Many retirees are living off 100% of their investment portfolio, and worrying about the next down market and whether they will run out of money.

I believe retirees should be confident about their ability to meet their income needs from a predictable source; regardless of market performance and regardless of how long they live.

We have experienced two major down markets in the last 15 years that devastated investor portfolios. During these down markets, many investors abandoned their equities altogether, essentially missing out on the important long-term growth potential provided by exposure to equities.

The Four Major Risks to Retirement Income

Major market indexes have recovered, but large losses of principal while withdrawing from a portfolio can prove disastrous to retiree's financial security.

1. Sequence risk is one of the most significant dangers to your retirement income security. Why? This risk has a double impact—first in a down market there is the potential for large losses of account value and second, the simultaneous withdrawing of income can significantly impact your future withdrawal amounts. An income allocation strategy can help manage your sequence risk.

2. Withdrawal rate risk is taking more money out of your portfolio than the account value and the rate of return in the portfolio can accommodate without running out of money. In short, you can take out too much money too fast and too soon.

In addition to market downturns, there are other important risks that can impact your ability to sustain withdrawals.

3. Longevity risk is the chance of living longer than you expect. This is a challenge to retiree income streams since there is no way of knowing how long your retirement will last.

4. Inflation risk can erode the purchasing power of your retirement dollars. Your future income stream is potentially less effective at supporting your lifestyle in retirement.

Similarly, there are risks associated with excessive fees and taxes that can erode your income in retirement. How long has it been since you reviewed the fees in your investment portfolio, including any undisclosed costs? Is your actively managed fund triggering unnecessary tax liabilities as your manager attempts to beat the market?

Income allocation is a retirement plan—not an investment plan. Having one can help you eliminate your four biggest risks in retirement (withdrawal, longevity, sequence of returns and inflation) while also helping address other risks such as fees and taxes.

Income Allocation Plus Asset Allocation

Proper implementation of an income allocation strategy can help you meet your retirement income needs with only a portion of your savings. The remainder of your assets can now be invested in an asset allocation strategy to offset the inflationary impact on your purchasing power or used in other discretionary opportunities like gifting to children, charitable causes or just travelling to places you have always wanted to visit.

This is why most of my clients come to understand why income allocation PLUS asset allocation is a winning combination, and why both are needed.

In short, once you have covered your retirement cash flow needs with an income allocation strategy, you can then use the balance of your savings to pursue the retirement of your dreams.

If you want to learn more about how income allocation strategies can help protect your retirement savings, just email me at rfh@hoffmanwm.com or call me on my direct line; (805) 648-5306.

I will also email you my article entitled "Do You Have a Minimum Wage Retirement?"

In the meantime, be well and stay well.

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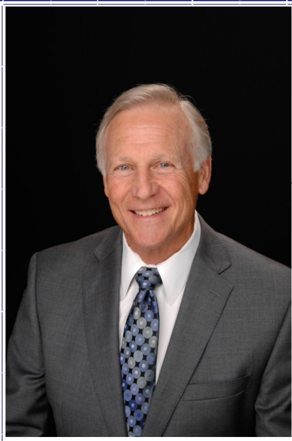

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Ross F. Hoffman is President and Chief Executive Officer of Hoffman & Associates, Estate & Financial Advisors, Inc. He has over 40 years of professional experience in financial, estate, and investment advising. Ross believes everyone should have the opportunity, the freedom and the best information to decide what estate, retirement, and business transition plans work best for them. He has also written articles on these topics.

Ross has earned the most respected professional designations, including Accredited Wealth Management Advisor (AWMA), Accredited Investment Fiduciary (AIF®), Certified Financial Planner (CFP), Chartered Financial Consultant (ChFC), and Chartered Life Under-writer (CLU). He earned his undergraduate degree from UCLA, attended the U.S. Army School of Finance, and the Center of Fiduciary Studies at the University of Pittsburgh.

Ross is an accomplished speaker. He has lectured on Family Wealth Counseling, Evidence Based Investing, Exit Planning, creative uses of life insurance, charitable estate planning to professional groups including the Ventura County Bar Association and the Santa Barbara CPA/Law Society; and has taught estate and gift tax planning.

He is a former co-host of the weekly internet radio show “Conscious Investing,” and was in “Navigating the Fog of Investing,” a documentary film on the investment industry.

Ross is a prior member of Vistage (formerly TEC), an organization for CEOs, for over 25 years. They presented him the “Widest Range of Knowledge Award” as a Vistage member.

His community involvement has included Vice Chairman and Cabinet member of the Ventura County United Way, Technical Advisory Committee member for the Ventura County Community Foundation, Deferred Giving Board member for the Ventura County Medical Center, Board member of the American Lung Association, Board member of the Ventura County Planned Giving Council, Deferred Giving Committee member for the Boy Scouts of America and a past member of the Estate Planning Council. Ross was on the Board of Segue, a nonprofit, dedicated to keeping kids in school and helping them develop career paths.

Ross’s outside interests include golf, daily workouts and time with his family. He also wrote **Back And Better, 37 Rapid Recovery Exercises I Use When Injured or Bedridden**.