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## **How To Maximize Your Retirement Income With Assets You Already Have**

**Dan Eggertsen:** Hi, I'd like to welcome everyone to the call today. This is Dan Eggertsen. I'm here with my father Karl Eggertsen. Hey Dad, how you doing today?

**Karl Eggertsen:** I'm doing good Dan. How are you doing?

**Dan Eggertsen:** Oh pretty good. I just wanted to give you a call today and ask you three questions that we're getting from people over and over again. These are the top three questions we keep getting asked and I just wanted to take care of this for everyone today on this call. So if you're ready, I can shoot.

**Karl Eggertsen:** Okay Dan. Go ahead.

**Dan Eggertsen:** All right Dad. Well the first question that we're getting is, "I'm worried about having enough retirement income and I'll be retiring in the next seven years. What can I do now to make sure I have enough money?"

**Karl Eggertsen:** Well this is certainly an important question to be asking only seven years away from retirement. However, the good thing is that there are still some things that can be done to be better prepared and for retirement, at least to be thinking seriously about it, retiring in seven years. Some recommended steps follow. Take some time to carefully evaluate what your current spending needs are. Those are the bills that you have to pay every month. This would be groceries, mortgage payments, gas, electric. Those types of expenses we all have to pay every month.

**Dan Eggertsen:** Right.

**Karl Eggertsen:** Then evaluate and total all of your discretionary expenses. Those are expenses above and beyond what you have to spend every month. That gets down to going on travel, luxury trips, a lot of dinners out every week, this kind of thing are things that are called discretionary expenses. Then total all your expenses. All of your needed expenses, the things you have to pay every month and the other expenses you have every month. You total that up and you come up with a total amount of expenses that you spend every month. Then to be only seven years away, that's one advantage to be closer to retirement than 20, 30, 40 years away

because you know what your living style is and you're not too far off of what costs are going to be.

Tacking on some inflation of course, maybe 3% inflation over the next seven years and project what your expenses are going to be in retirement plus adding in any other changes that you plan on or you expect to making in your lifestyle during retirement. So once you have these expenses, you're going to know how much income you're going to need. Okay? Then at that point, you need to look at all the possible income sources that you're going to have at retirement. An example list would be an employer retirement plan and/or a 401K. Some people could have two in the same company. Their employer has a retirement plan and plus you can choose to contribute to a 401K if you want to. Somebody who is self-employed, a SEP for example, and project what that's going to be in seven years.

**[03:29.3]**

IRAs, personal portfolios, social security, rents from rental properties, annuities and I'm talking specifically about an immediate annuity whether you have one or not now. One could be established with a lump sum that could give you income guaranteed for X number of years or for life depending on what kind of contract you get. Other options are your home and reverse mortgages. Those could be looked into and any royalties somebody might have from a book they wrote or any other products or services that they provided. You total up your income and compare it to the total expenses and you see if you're on track.

If you're short, there're still some options that one could consider. One would be to cut back on expenses. Another would be maybe at the same time to increase your retirement contributions while you cut back on expenses. You'd have more to contribute. Or work a few years longer. The key is to come up with a plan. Know where you are right now and to be persistent and stick with it and you could be a lot better off in seven years than you think you'd be if you do these things. A very helpful tool in doing all of this – you know you could do it long hand but there's a T. Rowe Price retirement income calculator. You just look that up on Google and...

**Dan Eggertsen:** T. Rowe Price Retirement Income Calculator.

**Karl Eggertsen:** Right. And you look that up on Google and it's a free calculator and it's very good. You can really insert all the kind of data that we've been talking about here for income as well as expenses and then it can take that and it goes through a very sophisticated process. It can actually project probabilities that you're going to be successful with the amount of income based on expenses you have in retirement. So that's a very useful, quick tool. Okay.

**Dan Eggertsen:** Right. Okay. Great. Thanks so much for that resource. That's going to be very helpful to everybody. Okay. Let's move onto the second question Dad. Good job on that first one. Second one is, "What's the best and safest investment for guaranteeing retirement income?" I know there's no such thing as guaranteed Dad but I think the people asking this question are just wondering what the best chance they have at getting some retirement income in a single investment.

**Karl Eggertsen:** Okay. So the best and safest investment for guaranteeing retirement income right? Guaranteeing I think being the key word there. There are some main choices. Examples are treasury bills or bonds; they're guaranteed, backed by the Federal government. Certificates of Deposit; you get those from banks. They're guaranteed, very secure. Money market funds you can get guaranteed ones that invest only in treasuries or you can get a regular money market fund with a little bit more interest that doesn't have just treasuries but it has other things. But money market funds, whether or not they have treasuries have historically been extremely safe.

**Dan Eggertsen:** Right.

**Karl Eggertsen:** Okay? But the trouble with these, these are examples of...

**Dan Eggertsen:** Low risk.  
[06:56.0]

**Karl Eggertsen:** ...very low risk guaranteed type income investments but the thing is, with the interest rates being extremely low today, it's not a good source of income because you're going to lose value in your portfolio if you invest in such low risk, low return vehicles. In the long run your portfolio is going to shrink in value. Your income is not going to keep up with inflation and it's going to be a downward spiral. Okay?

So another choice would be, that provides higher income, especially given today's low income environment are annuities. I mentioned annuity earlier but you can invest in these and they are guaranteed. You want to make sure you select a good company that has a rock solid reputation insurance company that offers the annuity and immediate annuity is really a good way to go. There's different types of annuities but immediate annuities are really a good way to go or you contribute a lump sum and you get guaranteed income again, for X number of years or life.

So that would be an option. When we're talking about guaranteed retirement income, you're restricted and you've got to be really careful that you're going to be getting something that's going to be providing you a living income for over the years and you've got to be very careful to watch the interest rates and inflation to make sure that you're not going to find yourself in trouble X years down the line.

**Dan Eggertsen:** Yeah. It might be extremely safe but if it's not giving you enough income, why get it?

**Karl Eggertsen:** But an annuity could be a very useful part for many peoples' portfolios. I wouldn't necessarily recommend somebody go 100% on their retirement income from an annuity. But it can certainly be like a third or something of somebody's portfolio, maybe 20%, 30% or something like that because it is guaranteed and it's diversified away from other types of income that you could be getting.

**Dan Eggertsen:** Right.

**Karl Eggertsen:** Okay?

**Dan Eggertsen:** Fantastic. Okay. Let's move on to the third and final question. "What different investing vehicles are good at giving me some retirement income? What are my options?" So you've listed a few of them already, are there any more you haven't discussed or do you want to go over them?

**Karl Eggertsen:** Oh absolutely. We were looking at guaranteed income, that type of thing. If we can look at the spectrum of income vehicles, there are just loads of them. If you get a number of them and because they're all different and they're diversified from each other, you get a lot of security just in the diversification.

**Dan Eggertsen:** Right.

[09:49.1]

**Karl Eggertsen:** Plus you're going to get a lot higher return. So let me mention a few of them. By the way, I do recommend that most investors should go with mutual funds or exchange traded funds for their investments because you get immediate diversification. You don't need to have a lot, a lot of money to spread your bets across single investment securities. By getting into mutual funds, you get immediate diversification. You get income every month. They're very safe historically. So I would recommend that for most people. Okay?

**Dan Eggertsen:** Okay.

**Karl Eggertsen:** So going on to some vehicles, a total bond fund, that would be a bond fund that you could get through Vanguard, Fidelity, Charles Schwab, a number of them. It's a mix of a variety of major bond classes like corporate bonds, mortgage backed securities, treasury bonds. They typically spinoff around 4% to 5%. It's going to of course vary depending on what the economy is like. Muni bonds, state or national. If they're national, you get Federal tax free; you have no taxes on your income. If you have state municipal bonds, you don't pay any taxes at all on state or Federal and they right now are getting around 4%.

The muni bonds are better for people in the higher tax bracket. Then you have high yield bonds, more risky but a lot safer from a volatility standpoint than stocks usually. They're getting around 8 ½% right now and it can vary all the way up to 11% or 12% like they were a number of months ago or they can go a little bit lower. But they're higher than most other fixed income vehicles.

Then you've got foreign bond funds, developed countries or the emerging market countries like China and India where you get a lot of diversification in currency and you could get a pretty good interest rate yield, 6% to 7% right now. REITs, Real Estate Investment Trusts, 5% to 6% return. They invest in commercial, industrial, residential properties around the country. That's a good way to go. It's very diversified from some of the other type of fixed income vehicles I just talked about. You could even go with stock dividends. You could find a stock mutual fund. You know focus on higher dividends and that provides further diversification from bonds. They're typically 3%, 4% some are a little bit higher, 5%, 6%.

**Dan Eggertsen:** Right.

**Karl Eggertsen:** But again stocks are mainly designed for growth but some of them do spinoff some pretty good dividend income. So that would give you more diversification. Then there's home reverse, I mentioned reverse mortgages on homes. That would be another way to go to get some income in retirement and annuities. I already talked about annuities.

**Dan Eggertsen:** Yeah you did. Yeah.

[13:15.1]

**Karl Eggertsen:** Okay. The last thing I wanted to mention on this overall topic of investing vehicles for retirement income. You can do a mix and match of a lot of the types of vehicles I've been talking about as individual vehicles that I just listed here and putting them into a portfolio of stocks and bonds. The bottom line is that a diversified portfolio of stocks and fixed income vehicles is pretty hard to beat. It's not guaranteed but you're so diversified. Say you have a 50/50 mix of stocks and bonds just for examples' sake - they have found that 97% of the time and this is over 10 year periods over the last 80 years. For every 10 year period over the last 80 years, stocks have not lost money. Okay?

They have actually grown, a lot or at least some in some of the worst time periods. When you get out to 10 years, stocks are growing over the last 80 years and study was done on this. So one in retirement can tap the income from their portfolio and maybe a little bit of principle. Maybe they can focus just on, and this would kind of be a pretty good recommendation based on historical studies that if you focus on a fixed income for your income in retirement and then every five to ten years tap the growth side which would be the stock which you leave alone for five or ten years and let them do their growth and get their return.

Then to replenish your fixed income side as it goes down, you could replenish it with the growth side. So you leave the 50% stocks in this 50/50 portfolio as just an example, alone for five to ten years, more than likely it will have grown whereas the fixed income side is where you're focusing your retirement income. So 97% of the time, stocks over a 10 year period are not losing value. Over the last 80 years. Every 10 year period they're doing in the positive direction. So that's something one should never forget is a diversified portfolio.

We have been focusing on fixed income vehicles here for retirement but a diversified portfolio of stocks and fixed income vehicles is a pretty smart way to go. You could mix in an annuity. You get some guaranteed income into that. Maybe a third of your portfolio could be in an immediate annuity if you want that comfort level and guarantee. There're a lot of things one could do. But over a seven year period, there's a lot that these people can do if they develop a plan based on their own personal circumstances.

Stick with it. Maybe some sacrifices on luxuries for the next seven years and go forward and be persistent and do whatever you can. If there is a shortage that you expect to see in seven years, you can contribute more. You could make some plans to use a variety of these income sources that would be available to many people and maybe they haven't even thought about it and they could even work a few years longer.

**Dan Eggertsen:** Right.

**Karl Eggertsen:** So the key is now even though seven years is not far away, it's still far enough that some things can be done to make the situation, to maybe make the situation work.

**Dan Eggertsen:** Okay. Fantastic Dad.

[16:53.9]

**Karl Eggertsen:** Okay.

**Dan Eggertsen:** Thank you so much. It makes a lot of sense and I think you're going to help. Anyone who listens to this is going to get a lot of great tips and advice on this stuff. So I appreciate everyone's time for being on the call and thank you so much for your time Dad.

**Karl Eggertsen:** Okay Dan. Bye.

**Dan Eggertsen:** All right. Talk to you next time. Bye.

[17:10.3]