Securing Income Through Retirement

Living on a fixed income during retirement years can be a difficult adjustment. Many retirees have to carefully budget their monthly expenditures while contending with the risk of running out of savings before their retirement ends. A little planning today can secure a lifetime of income and let you make the most of your hard-earned retirement years.

A **2021 study** by the Employee Benefit Research Institute indicates that the median retirement age is 62 years old, contrary to the belief most workers hold – they expect to retire at age 65. Furthermore, over 70% of workers believe that they will work for pay after they retire, but only 30% of retirees say they actually do so. These two statistics combine to make one thing evident: workers who are not yet retired should plan to need extra years of retirement income. People often retire earlier than initially planned and few end up working for pay after the fact.

Knowing this, assessing your projected income needs a decade or more before your desired retirement date can help avoid shortfalls. Your assessment should consider your required monthly expenses such as utilities, transportation, groceries, and medical costs as well as quarterly or annual expenses like taxes. Any long-term plan should also factor in an increase in costs across the board due to inflation. As a result, experts suggest that most people need at least 70—80% of their pre-retirement income each year during retirement.

> **Note:** Historically, **inflation averages about 3% each year**.

Your expenses will determine your income requirements, and they can be met in various ways.

Guaranteed Income Sources

Lifetime income from **Social Security** may provide some income, but the future of the Social Security program is not certain. Currently, the Social Security Board of Trustees projects that by 2035, the program will only be able to pay out 75% of an individual's benefits. If you are not already retired or planning to retire in the next decade, this decrease in benefits will likely affect you. Even so, it is still important to carefully consider when to begin taking Social Security, as your age upon that start date can drastically affect the amount of monthly income you and/or a surviving spouse would ultimately receive.

You can create an account with the Social Security Administration and check your projected benefit level **here**.

Pensions, though they have become less common over time, also provide guaranteed income during retirement. Fortunately, servicemembers are one group of employees that do still have a pension plan. The amount of money you will receive in retirement depends on which pension plan you enrolled in when joining the military. All servicemembers who joined the military after January 1, 2018, are enrolled in the Blended Retirement System. Pension benefits are protected from inflation with annual cost-of-living adjustments.

- **Legacy High-3**: If you serve for at least 20 years, you qualify for a lifetime monthly annuity payment that is calculated at 2.5% times your number of years of service times the average of your highest 36 months of basic pay. TSP contributions *are not* matched by the government under this system.
- **Blended Retirement System**: If you serve for at least 20 years, you qualify for a lifetime monthly annuity payment that is calculated at 2% times your number of years of service times the average of your highest 36 months of basic pay. In addition to this potential pension benefit, some TSP contributions are matched by the government, up to 5% per paycheck, and the IRS limits each year.

Given that this income is guaranteed, it provides a huge safety net during your retirement.

Purchasing **an annuity** is yet another way to provide lifetime income. Navy Mutual's **fixed annuities** are conservative investments that provide a high level of safety. Annuities grow a sum of money at a fixed rate and provide income in the future. If your goal is to ensure that you will receive income throughout your retirement, consider one of the "life income" **payout options**. Even with careful budgeting, it is possible to outlive your retirement assets. By choosing a life income payout option for an annuity, you are creating a floor of income that acts as a financial safety net, guaranteeing a monthly payment for the remainder of your life.

Other Income Sources

The remaining income you need in retirement will need to come from your personal savings, investments, and retirement accounts. What do your current retirement savings look like? Do you have a TSP, 401(k), or IRA?

Retirement accounts may be subject to required minimum distributions, or RMDs. This means that the IRS requires you to take money *out* of these accounts beginning in the year during which you turn 72 years old and for every year that funds remain thereafter. Note that Roth IRAs do not require RMDs. How long the money in your retirement accounts lasts depends on how much you saved over your working years and whether you choose to withdraw more than the required amount. Given that this money is finite, there is the possibility you could outlive your retirement savings. Keep in mind, too, that withdrawals might be taxable depending on the type of retirement account you are pulling from.

Investments can be held in various funds for as long as you would like – there are no required minimum distributions – but keep in mind that the value of your investments changes with the market, and there could be a tax bill that comes due when you withdraw your money.

As you near the end of your working years, you could consider changing the allocation of your investments to more conservative funds. Given that the stock market can change for the worse at any time, you may not want a significant portion of your retirement funds tied up in volatile investments, especially if your time horizon for needing those funds is short. While risk can lead to reward – especially when you are younger and your investments have time to recover from any downswings – it may be wiser to play it safe as you age.

Other Considerations

If guaranteed pension benefits, estimated Social Security income, and distributions from qualified retirement accounts are not enough to create 70—80% of your pre-retirement income each year, look at ways to **reduce debt** and eliminate spending.

Be sure to look at the effect taxes will have on your retirement savings as well. Determine what percentage of your current savings are taxable and nontaxable – this helps to identify the tax impact of withdrawing from each type of account. Does your portfolio include both tax-deferred and after-tax investments? An all tax-deferred savings portfolio may leave you with a large tax bill every year throughout retirement. Putting money into a Roth IRA, TSP, or 401(k), or funding an annuity with after-tax dollars can help reduce your future tax burden.

Navy Mutual is here to help. If you are interested in an annuity and want to know what option may be best for you, **schedule an appointment** with an annuity expert or give us a call at **800-628-6011**.