

Retirement Success Isn't About Net Worth, It's About Net Income

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If you're wondering if you have enough saved to retire, you won't find the answer to that critical question on the bottom of your 401(k) statement.

This isn't your grandparents' retirement.

America's move from pensions to 401(k)s and IRAs has changed the way most workers think about their retirement money — and not for the better.

Traditional pensions were designed to provide participants with guaranteed income — and the people who have them typically think of their benefits in those terms. They know what their monthly pension check will be in retirement, or what percentage of their old salary it will provide. It's something they can count on and plan around.

Many savers flying blind

Ask pre-retirees about their IRA or 401(k), and they'll probably tell you the amount on their last statement ... if they opened it. As for what that number will translate to in retirement, they likely have no idea. And no plan.

That means many people who have spent their entire adult lives relying on a regular paycheck — knowing exactly how much it will be and exactly when it will go into the bank — are rushing toward retirement with no real strategy for how they're going to replace that check when they leave their jobs.

A 401(k)'s focus is on accumulation, and from my experience savers, plan administrators and many financial professionals tend to frame things only in those terms. They talk about growth, asset allocation, risk and return, instead of how that money is going to serve as future income.

A plan for 'permanent unemployment'

Accumulation is important when you're young and trying to save as much as you can. But in retirement, that number at the bottom of

your statement — whether it's \$500,000, \$1 million or more — is mostly irrelevant ... unless you know how you're going to use it. What you really need is a dependable distribution plan that will ensure you can maintain the lifestyle you want for as long as you live.

I often tell people to think of retirement as “permanent unemployment” to push the point that they must make sure there's always money coming in. Our firm has a process (we call it the “Retirement Fingerprint”) that solves that puzzle first, looking at all the possible income streams you might have to depend on and how to make the most of each:

Social Security — Just about everyone collects Social Security, but there are many ways to maximize those benefits, depending on your individual needs.

Pension — If you're fortunate enough to have a pension, you likely have several options to consider before your retirement date, including a possible lump sum payout and survivor benefits.

Investment savings — Most couples have at least one 401(k) or 403(b) account. Your plan should look at tax consequences, inflation and volatility in an effort to preserve those hard-earned dollars.

Other investments — If you have real estate or other investments, even alternative solutions like annuities — they can play a critical part in your plan, by offering diversity and further income potential.

The goal should be to provide what we call “mailbox money” — reliable income that's coming in every month. The happiest, most contented retirees I know are the ones who have that figured out.

A solid plan for an eventful life

I understand the fascination with growth, especially given that so many retirees say they are worried about outliving their money. They just want to be sure they have enough.

But without a plan, how will they know what enough is?

I've never seen a person in retirement go out and spend all his or her money in one day or one year. What really happens is that you withdraw more than you should early in retirement, or a market downturn leaves you shorter on funds than you thought you'd be, or an unexpected health problem uses up your savings, and you start compromising your lifestyle. You stop doing the things you wanted to do, or you can't live where you want to live. And your life gets less eventful, year after year after year.

But if you have a solid plan, with reliable sources of income and a pecking order for where the money will come from, your basic lifestyle won't be as vulnerable.

If you haven't already, talk to an adviser — one who specializes in retirement — about putting together an income plan. Don't try to go it alone. A professional will have access to solutions that you might not have even thought about. And he or she can help you make net income your priority instead of net worth.

Kim Franke-Folstad contributed to this article.

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