Published 02/11/2014 in the *Bradenton Herald*, Bradenton, Florida
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Gauging your income for retirement

It might seem like a fairly safe course of action. Withdraw no more than 4 percent from your income-producing money each year. The plan is to have enough income to last the rest of your life and never touch the money.

But one of the biggest fears facing those wanting to or who are retired is the possibility of outliving your money.

Maybe you are making more than 4% on your income-producing money. That's fine, but what are your expenses? Your income could be going out faster than it is coming in.

Income used to be generous, especially from CDs. Because of historically low interest rates, it's almost impossible to get 4% income from these investments today.

The 4% rule is a rule of thumb used to determine the amount of funds to withdraw from a retirement account each year. The 4% rate is considered to be a "safe" rate, with the withdrawals consisting primarily of interest and dividends.

I suggest the 4% Rule should be more of a guideline, since the recommended rate of withdrawal has been known to go up and down through the years.

There are only two parts to the 4% Rule or guideline. They are the income-producing investments, that's what you own, and the income they pay you.

If your income requirements dictate more than 4%, you may have to sell some of your investments to make up the loss, start cutting back on living expenses, or get a job. Adjustments will have to be made.

If adjustments are not made, you will eventually run out of money. Then what's your plan? Move in with the kids?

The fancy terminology to figure some of this is called Monte Carlo simulation. The concept involves a computer program that some financial planners have.

It calculates many thousands of possible outcomes using variables such as age, investments, income, fixed income, expenses, needs, wants, and many other factors.

It arrives at some possible outcomes to see the probability that your money will last your lifetime. You can then make adjustments to see the likelihood that the resulting financial plan has a chance to succeed.

It might take an hour or two of your time to put in the data, but the end results can estimate how likely it is that you will not outlive your money.

You make a plan on what to buy at the grocery store, so why not make a plan for your financial future?

Is this written, comprehensive, financial plan iron clad and guaranteed? No, but having a plan is better than no plan. Having a realistic plan is even better.

So get started today, not tomorrow, because tomorrow may be too late.

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