

RETIREMENT REPORT

Your Guide to a Richer Retirement

SAMPLE ISSUE | AUGUST 2017

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Prepare Your Nest Egg to Fight Inflation

INFLATION DOESN'T LOOK LIKE MUCH OF A THREAT AT THE moment. But for retirees, it's a risk that can't be ignored.

Late last year, rising commodity prices, a tightening labor market, and a new administration voicing support for tax cuts and infrastructure spending all fueled growing concern over rising prices. The consumer price index started to tick up in August of last year, and in February it posted a 2.7% year-over-year increase, the largest in five years.

But then came four straight months of decelerating inflation. The CPI climbed just 1.6% in the 12 months ending in June. Kiplinger sees inflation at 1.3% at the end of this year, down from 2.1% in 2016.

So why worry about inflation now? The real concern is that an inflationary shock—an unexpected spurt of rising prices—would be particularly damaging to investors' portfolios right now, says Ben Inker, head of asset allocation at money-management firm GMO.

The reason: Current stock and bond valuations reflect the market's assumption that short-term interest rates will remain low indefinitely, he says. If inflation spikes, the Federal Reserve would be forced to raise rates much more aggressively than the market expects, Inker says, driving stock and bond prices south.

And for retirees, even a seemingly benign inflation rate of 2% can be damaging. If you are still working, you have a natural hedge against rising prices because wages tend to rise with inflation. But once you retire, "this insurance is gone," says Ann Minnium, a financial planner in Scotch Plains, N.J. She tells her clients that even at 2% annual inflation, "a third of their purchasing power is going to be eroded in 20 years," Minnium says.

Tools to Hedge Against Inflation

Many financial advisers try to beat inflation in retirees' portfolios by maintaining a hefty stock allocation, on the theory that stocks will grow enough to keep up with rising prices. But a big dose of U.S. large-company stocks alone won't do the trick; you need a mix of small

and large, U.S. and foreign holdings.

In a recent study, Utah Valley University financial-planning professor Craig Israelsen compared the performance of various asset classes in low- and high-inflation years from 1970 through 2016. U.S. large-company stocks delivered a seemingly impressive 10.8% average return during high-inflation years—but their average after-inflation "real" return during those years was just 4.7%. U.S. small-company stocks looked better during high-inflation years, delivering average real returns of 6.3%.

When diversifying globally, consider an allocation to emerging-markets stocks. "Right now, emerging-market equities are significantly safer in an unexpected inflation environment than U.S. equities," Inker says, in part because they're much cheaper.

Treasury inflation-protected securities, whose principal is tied to inflation, are another good, but not perfect, inflation-fighting tool. TIPS are vulnerable to rising rates—when rates rise, bond prices fall. One way to minimize the risk: Choose a short-term TIPS fund with less interest-rate sensitivity, such as **Vanguard Short-Term Inflation-Protected Securities** (symbol VTIP) exchange-traded fund. The Vanguard ETF is one of the cheapest funds in the category, with fees of 0.07%, and it focuses on TIPS maturing in less than five years.

Commodities can be inflation superstars. Israelsen found that they delivered real returns of 15.1% in high-inflation years. The **Harbor Commodity Real Return Strategy** fund (HACMX) offers commodity and TIPS exposure and charges 0.94%.

But again, commodities are no magic bullet. They'll likely perform admirably if we see inflation that's driven by a commodity shock like the 1970s oil crisis, Inker says, but "it's possible to have inflation that's not driven by a commodity shock," in which case commodities may not perform particularly well.

Spread your inflation-hedging bets. A multi-asset inflation-fighting fund can help. For example, **Pimco All Asset** (PASDX) holds a mix of commodities, emerging-markets stocks and other assets. **K**

Make the Most of a Survivor Benefit

YOUR HIGHER-EARNING SPOUSE DIES, AND YOU'RE eligible for a Social Security survivor benefit. But should you instead claim a benefit based on your earnings? One study finds that some individuals, even lower-earning spouses, could do better if they claim a survivor benefit first and then switch to their own benefit at age 70.

Let's start with some Social Security basics. Those born between 1943 and 1954 can claim a full benefit at 66. You can collect your own benefit as early as 62, but it's permanently reduced by a certain percentage for each month you claim early. Claim at 62, for instance, and you get about 75% of your full benefit. For each month you delay beyond 66, your benefit will increase by a small percentage—up to 8% a year—until 70.

A widow or widower is entitled to a survivor benefit that is equal to 100% of the deceased spouse's benefit, as long as the survivor waits until full retirement age to collect. If a survivor claims a survivor benefit earlier, that benefit will be reduced somewhat. You can collect a survivor benefit as early as age 60.

If a spouse dies, the survivor has several options to maximize Social Security benefits. William Reichenstein, a professor of investment at Baylor University, in Waco, Tex., and his co-researchers ran through several calculations that show the various possibilities.

One option is to start collecting a survivor benefit at perhaps 60 or 62. When you reach 66 or later, you can switch to your full benefit based on your earnings. Switching only makes sense if your own benefit when you switch will be worth more than the survivor benefit. Collecting that survivor benefit early may enable you to afford to delay claiming your own benefit.

Take Jack and Beth, who are both 62. Jack's full benefit at 66 is \$1,000, while Beth's is \$800. Neither is col-

lecting benefits. Jack dies at 62, and Beth decides to claim a benefit. But should Beth claim a benefit based on her own earnings at 62 and later switch to a survivor benefit? Or should she claim a survivor benefit now, and perhaps claim her own benefit later?

Let's say she takes her own benefit now. Because she is claiming at 62, her monthly benefit would be reduced to \$600. At 66, she switches to a monthly survivor benefit of \$1,000. By age 84, which is her life expectancy, she would have received \$181,125 in present value, which is the current worth of the future income stream, according to Reichenstein.

But, says Reichenstein, Beth could boost the lifetime value of her benefits by switching the order. If she claims a survivor benefit at 62, Jack's \$1,000 full benefit would be reduced, to \$810, because she is claiming early. At 70, she switches to a monthly benefit of \$1,056 based on her own record (her \$800 benefit plus 32% in delayed credits). The present value: \$189,379. "By waiting until 70 before she begins benefits based on her earnings record, her payments will rise above the survivor payments," Reichenstein says.

Let's say Jack doesn't die at 62. Jack and Beth both hold off on claiming benefits. He dies at his full retirement age of 66. She decides to claim benefits.

Beth claims her monthly survivor benefit of \$1,000. If she continues collecting that until she dies at age 84, she'll get \$173,629, Reichenstein figures. If she collects the \$1,000 survivor benefit at 66 and then switches at age 70 to a benefit based on her own record, she'll get \$1,056 a month—for a total of \$180,822.

What if Beth dies first, at age 66? In one scenario, Jack claims his own benefit of \$1,000 until he dies at age 82, collecting \$159,649. If instead he collects a survivor benefit, of \$800 a month, he could switch to his own benefit at 70. By delaying four years past his full retirement age, his benefit based on his earnings would be worth \$1,320—for a total of \$187,244.

The lesson: Many individuals who are eligible for benefits based on their earnings and for survivor benefits could end up better off by claiming a survivor benefit first and then switching to their own benefit at 70. Reichenstein says you'll need to "run the calculations both ways" to make a decision. **K**



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FROM THE MAILBOX

Your Questions Answered



Don't Include House Value In Withdrawal Estimate

I've read that you should pull out no more than 4% of assets during the first year of retirement, and then increase that amount by 3% a year to

account for inflation. Do those assets include equity in your home?

No. You consider only liquid assets when you determine your withdrawal strategy. So if you have a \$1 million portfolio and \$500,000 in available equity in your house, the 4% formula would set the first-year payout at \$40,000 (4% of the \$1 million portfolio). Remember, you will need your house to live in. If you sell your house and move into a smaller one, you can put the profit into your investments and take the 4% from the larger nest egg.

Tap Life Insurance Benefits Before You Die

Can you tap your life insurance death benefits in advance if you're diagnosed with a terminal illness?

Many life insurance policies offer "accelerated death benefits," which allow policyholders who have been diagnosed with a terminal illness to access a portion of the death benefit while they are still alive. These benefits may be available for term life insurance policies and permanent life insurance policies. With both kinds of policies, the money you receive early is subtracted from the death benefit your heirs will receive when you die. Details vary by company, type of policy and state.

Earned Income Required for Roth IRA Contributions

My wife and I are both retired. I receive a pension and would like to contribute to a Roth IRA. Am I allowed to do that?

Not if that's your only income. You or your spouse must have compensation from a job or self-employment to contribute to a Roth IRA. If you have a part-time job to supplement your pension, though, you can use income from that job as the basis for a Roth contribution. Eligible individuals can contribute up to \$5,500 for 2017—plus a \$1,000 catch-up contribution for those 50 and older—of their compensation to an IRA. **K**

Rates and Yields

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High-Dividend Stocks

We used Kiplinger.com's stock-finder tool to screen stocks for at least five years of consecutive dividend increases.

DIVIDEND STOCKS	YIELD	SHARE PRICE
AT&T (T)	5.3%	\$37
Verizon Communications (VZ)	5.3	43
Chevron (CVX)	4.2	103

Benchmarks

	THIS MONTH	3 MONTHS AGO	YEAR AGO
Inflation rate*	1.90%	2.70%	1.00%
Six-month Treasury	1.14	0.95	0.37
One-year Treasury	1.22	1.08	0.47
Ten-year Treasury	2.39	2.38	1.40

*Year-to-year change in CPI as of May 2017, February 2017 and May 2016.

Fixed Annuities

SINGLE-PREMIUM IMMEDIATE-ANNUITY MONTHLY PAYOUT FACTOR	HIGHEST	AVERAGE
Male age 65	\$5.34	\$5.11
Female age 65	5.16	4.86
Male age 70	6.01	5.77
Female age 70	5.73	5.45

Payouts are guaranteed to the annuitant for life, with a minimum payout period of ten years. Payout factors are per each \$1,000. SOURCE: Comparative Annuity Reports (www.comparativeannuityreports.com). Data are to July 1, 2017.

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Information to Act On

INVESTING

■ **Upgrades.** The Financial Industry Regulatory Authority has improved its Fund Analyzer tool (www.finra.org/fundanalyzer), which lets you compare mutual funds and exchange-traded funds and evaluate their expenses. The new features include an annual expense comparison, which shows how a fund's expense ratio stacks up against an industry average of similar funds.

BANKING

■ **CD penalties.** Only 44% of financial institutions that post rate and fee information online also include details on early-withdrawal penalties for certificates of deposit, according to DepositAccounts.com. How that penalty is calculated can differ by institution. The penalty may be a specified percentage of principal, for instance, or a certain number of days of interest. DepositAccounts.com spells out the penalty terms of specific CDs.

■ **FDIC limits.** To make sure your money is fully covered by the Federal Deposit Insurance Corp., use the "Electronic Deposit Insurance Estimator" tool at www.fdic.gov/edie. The FDIC insures up to \$250,000 for an individual account per bank. It also covers up to \$250,000 for each person's share of a joint account, and up to \$250,000 in deposits in retirement accounts, such as IRAs, at each bank.

CONSUMER INFORMATION

■ **Background check.** If you are looking for a new financial adviser, you can check an investment adviser's disciplinary record at www.adviserinfo.sec.gov. And to look into a broker's background, go to <http://brokercheck.finra.org>.

■ **Plan help.** The federal Employee Benefits Security Administration offers a consumer assistance Web page. Go to www.dol.gov/ebsa and click "Ask EBSA." You can submit questions and complaints about health and retirement plans. The page also features educational fact sheets and videos. EBSA has a toll-free consumer help line at 866-444-3272.

BENEFITS

■ **Faster processing.** The Social Security Administration will expedite disability claims for applicants with severe medical conditions. The agency lists 225 conditions for which the expedited process applies. (You can find the list at www.socialsecurity.gov/compassionateallowances.) These claims should be decided within days, the agency says.

■ **Online statements.** The Social Security Administration reports that more than 22 million "My Social Security" accounts have been created. With an account, you can see your Social Security benefits statement online; it provides estimates for retirement, disability and survivor benefits. Go to www.socialsecurity.gov/mystatement.

LONG-TERM CARE

■ **Deduct more premiums.** You can deduct more of your long-term-care premiums as a medical expense in 2017. Taxpayers 71 and older can claim up to \$5,110, seniors 61 to 70 can claim up to \$4,090, while people 51 to 60 can deduct up to \$1,530.

TAXES

■ **Plate break.** You can get a tax break when paying extra for a license plate that advocates a charitable cause. In a case involving a plate in which the extra money went to preserve public lands, the IRS said that the additional fee is a charitable contribution. You can deduct the fee on Schedule A.

■ **Retiree taxes.** Kiplinger.com's retiree tax map (kiplinger.com/links/retireetaxmap) can help determine the most tax-friendly states for you and your assets in retirement. You can sort the map by such categories as states that don't tax Social Security benefits.



ESTATE PLANNING

■ **All-in-one guide.** The American Institute for Economic Research offers a publication that helps devise a "master plan" to handle your estate if you become incapacitated or die. *If Something Should Happen* includes worksheets to help pull together pertinent information. Copies are \$10; order one at www.aier.org/bookstore, or call 888-528-1216.

CAREGIVING

■ **Caregiving support.** The Family Caregiver Alliance's "Family Care Navigator" helps families locate government, nonprofit and private caregiver support programs. The online guide includes information on legal resources and disease-specific organizations. Find it at www.caregiver.org/family-care-navigator.

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Don't Get Trapped By Medicare Rules

RETIRING PAST AGE 65? YOU MAY CHOOSE TO STICK with your employer's health plan rather than signing up for Medicare. But you could risk going without insurance for several months, and pay an annual penalty for life, if you don't follow Medicare's strict enrollment rules.

When you turn 65, you're eligible to sign up for Medicare Part B, which covers outpatient services. You may decide that it's easier or cheaper to continue with your employer coverage—either opting to take corporate retiree medical benefits or going with COBRA. Under the federal COBRA law, companies with at least 20 employees must allow former workers to buy into the group health plan for up to 18 months.

That could be a big mistake. When you turn 65, you can forgo Medicare without consequence if you are still working and are covered by your employer's group health plan. But once you leave the job, you must enroll in Part B within eight months after the month you retire, even if you continue to be covered by your employer's health plan. This eight-month period is known as the "special enrollment period."

If you miss this deadline and your employer coverage expires, you could find yourself uninsured for many months. You will not be allowed to enroll in Medicare Part B until the next "general enrollment period," which runs from January 1 to March 31. Your coverage won't begin until July. Plus, you may be subject to late penalties. "You should enroll in Part B as early as you can," says Joe Baker, president of the non-profit Medicare Rights Center. "The penalties and waiting periods for not doing so can be substantial and ongoing."

Some retirees realize they have made a mistake when the group health plan rejects their claims. When you turn 65, a retiree health plan or COBRA will pay only for medical expenses that Part B won't cover, says Baker. Even if you decide not to enroll in Medicare, your former employer's plan will consider the government insurer to be the primary payer.

In some cases, it could take time for the health plan to realize that the beneficiary is eligible for Medi-

care. Once the insurance company discovers its error, though, it could stop paying claims and may try to recoup the benefits it already paid out, Baker says.



Falling Into a Coverage Gap

These enrollment rules came as a big surprise to Kent Evanson, who lives in Glen Ellen, Ill. He left Merrill Lynch as a financial adviser at the end of June 2008 at age 69. Because he liked his employer plan, he decided to go on COBRA rather than enroll in Medicare.

Over the next year or so, the plan rejected a couple of Evanson's medical claims. Its reason: Because he was eligible for Medicare, the plan considered itself to be the secondary payer. "I was paying \$1,000 a month in premiums for nothing," he says. "I wanted out."

By that time, however, Evanson had missed the eight-month enrollment window. When he went to sign up for Medicare in July 2009, he was told he would have to wait until January 1, 2010, to apply, and that coverage would not begin until July 1, 2010.

Even if you leave your job before you turn 65, you could face trouble if you ignore the enrollment rules. Assume you retired in January 2015 and went on COBRA. You turned 65 nine months later, in October 2015. In this case, the "initial enrollment period" applies to you. The initial enrollment period starts three months before the month of your 65th birthday and ends three months after your birthday month. Because your 65th birthday was in October 2015, your initial enrollment period would have run until the end of January 2016.

Let's say you decided instead to stick with COBRA for the full 18 months, until it expired in June 2016. You wouldn't have been able to enroll in Part B until the next general enrollment period starting January 1, 2017. And you wouldn't have been covered until July 2017, about a year after your COBRA coverage ended.

To add insult to injury, you'll also be hit with lifetime penalties for missing an enrollment period. For each 12-month period you delay enrolling when you're eligible, you'll pay a penalty of 10% of your Part B premium—forever. **K**



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RETIREMENT INCOME

A Ladder of Annuities Can Hedge Your Bets

IN TODAY'S LOW INTEREST-RATE ENVIRONMENT, LOCKING up a big chunk of your portfolio in a fixed immediate annuity may not seem wise. But if you like the security of guaranteed payments and you believe rates will rise in coming years, you can hedge your bets by laddering annuities.

As with ladders of bonds or certificates of deposit, the strategy calls for buying fixed immediate annuities over a period of time. Instead of spending a lot of money on a single annuity that locks you into one rate for your lifetime, you split your money among several. Perhaps you buy an annuity every year for five years, or you purchase one every five years over the next 15 years.

Today's payouts for fixed immediate annuities are relatively low because interest rates and bond yields are low. A 70-year-old male could recently get an average monthly payout of \$5.77 per \$1,000 invested, compared with \$8.32 in the summer of 2000.

In addition to possibly benefiting from higher interest rates, laddering enables you to capture higher payments because of your age. The older you are when you buy a fixed immediate annuity, the higher the payout you'll receive.

Say a 65-year-old man wants to spend a total of \$300,000 on annuities. If he buys a \$300,000 lifetime annuity with no payments to beneficiaries at 65, he'd receive \$1,633 a month, according to a recent quote on ImmediateAnnuities.com.

Instead, if he wants some guaranteed income at age 65, he can buy a lifetime annuity for \$100,000 now and get \$544 a month. At 70, he buys another \$100,000 annuity to get an extra \$622 a month, for a total payout of \$1,166. He buys his third \$100,000 annuity at 75 to get \$743 a month, boosting his combined payout to \$1,909 a month. This assumes that interest rates and life expectancies remain the same.

You will forgo the extra guaranteed income early on. But the money that's not annuitized could continue to be invested in the markets.

Faster Investment Growth

There's no guarantee that an annuity ladder would provide more income than if you'd bought one annuity. But research indicates that laddering annuities might boost a nest egg.

A study by MassMutual Financial Group compared several retirement-income strategies, including one portfolio made up just of stocks and bonds and one that also included a ladder of fixed immediate annuities purchased at various times. Each portfolio started off at \$100,000 and was assumed to be held by a 65-year-old man.

The MassMutual study reviewed the investments' growth using market data from 1980 to 2006. The stock and bond portfolio ended up with a value of \$489,346, while the one with laddered annuities ended at \$735,292, the highest value of all the strategies tested.

As for deciding how you should stagger your ladder, there are no hard and fast rules. Experts say generally you want to get to halfway between your age and your life expectancy. For example, a 65-year-old would want to complete the ladder in about ten years.

Also, consider buying products from several insurance companies to spread your risk if one of the insurance companies goes under. States generally offer up to \$100,000 in liability protection, although rules vary by state.

If you need more guaranteed income right away, laddering might not be suitable. "Waiting has a cost," says Hersh Stern, who runs ImmediateAnnuities.com. "The cost is the loss of the monthly checks." He also cautions that rates could still decline.

But Drew Denning, vice-president of Income Solutions for The Principal, a financial-services firm, notes that laddering provides a psychological benefit. Someone who is 65 might feel comfortable monitoring a portfolio closely, but by 75 wants to have the security of a guaranteed income stream. **K**

Inheriting an IRA Poses Hazards for Heirs

➤ **IT'S EASY TO BE DISTRACTED WHEN A LOVED ONE DIES,** but you need to keep your wits about you if you're inheriting an IRA. Surviving spouses have some leeway, but nonspouse heirs must tread carefully. Make a mistake, and you could trigger a huge tax bill and lose your opportunity for a lifetime of tax-deferred growth. "There are a lot of little traps," says Jeffrey Levine, chief retirement strategist for Ed Slott and Co., which provides IRA advice. Here are some common pitfalls for nonspouse beneficiaries.

■ **Failing to take required distributions.** Owners of traditional IRAs must start taking required minimum distributions when they turn 70½. Nonspouse beneficiaries of any age who want to "stretch" the IRA over their own life expectancies must start RMDs the year following the year the owner died. Heirs will have to pay tax on distributions of deductible contributions and earnings from a traditional IRA.

Also, while Roth IRA owners never have to take RMDs, nonspouse beneficiaries must. However, withdrawals from an inherited Roth IRA are still tax free.

Not taking an RMD results in a 50% penalty on the amount that should have been withdrawn for the year. If you miss an RMD, you may avoid the penalty by emptying the account within five years of the owner's death (if the owner died before he had to start RMDs). "However, depending on the size of the IRA and the age of the beneficiary, it might be smarter to pay the penalty than to liquidate the account simply to avoid the penalty," says Twila Slesnick, author of *IRAs, 401(k)s & Other Retirement Plans* (Nolo, \$35).

Note, if the owner died after starting RMDs but had not yet taken the RMD for the year in which he or she died, that RMD must be withdrawn from the account.

■ **Titling the account improperly.** Nonspouse beneficiaries cannot roll an inherited IRA into their own IRA. Instead, a separate account must be set up with a title that includes the decedent's name and the fact that the account is for a beneficiary, says Levine. For example, the account could be retitled to "John Doe (deceased July 1, 2017) IRA for the benefit of Jane Doe." If the account is split among beneficiaries, each new IRA must be properly retitled. And once the IRA is retitled, don't forget to name successor beneficiaries.



■ **Not dividing the IRA among heirs.** Be sure to advise your beneficiaries to split the IRA, especially if they have a wide age difference. If the account is not split, the age of the oldest beneficiary will be used to calculate RMDs, which will shorten the number of years the money can grow tax deferred.

Say the beneficiaries are a 75-year-old sister, a 50-year-old son and a 20-year-old grandchild. If the account remains whole, all the heirs will have to calculate their RMDs based on the 75-year-old's life expectancy. Instead, if the account is split by December 31 of the year following the year the owner dies, each beneficiary can use his or her own life expectancy to take RMDs—and can choose how to invest the money. "The distribution depends on age—the younger the beneficiaries are, the less they have to take out," says Mike Piershale, president of Piershale Financial Group, in Crystal Lake, Ill.

■ **Ignoring non-person beneficiaries.** IRAs with multiple beneficiaries that include a charity or other non-person entity must pay out that entity's share by September 30 of the year following the owner's death. If that share isn't paid out and the account hasn't been split, the rest of the beneficiaries can't take withdrawals over their life expectancies. They will have to empty the account within five years if the owner died before his required beginning date for taking distributions. If the owner died after that date, the beneficiaries must take annual RMDs based on the deceased's life expectancy, as noted in IRS tables.

If a trust is a beneficiary, send a copy of the trust to the IRA custodian by October 31 of the year following the year the owner died. Otherwise, the trust is considered a nondesignated beneficiary and the same payout rules that applied in the previous scenario with the charity will kick in. **K**



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No Simple Rule for Spending Your Assets

MOST NEW RETIREES FACE THE SAME CONUNDRUM: How best to spend down assets? One rule of thumb is to spend only portfolio interest and dividends. Another popular strategy is to withdraw 4% of the initial retirement balance and adjust the dollar amount annually to keep pace with inflation.

But recent studies show that a third spend-down option is more beneficial for many retirees. That approach bases annual spending on the required minimum distribution rules that apply to traditional IRAs.

Still, rather than relying on a simple rule, retirees should understand each strategy's trade-offs and custom-build a spending plan to match their goals. Any strategy a retiree chooses should keep expenses covered and minimize the risk of running out of money. It also should fit with the retiree's goals, which may include maintaining a stable cash flow throughout retirement and leaving money to heirs.

That's a complex challenge—hence the appeal of simplified spending rules. Yet some academics dismiss widely used strategies. Consider a retiree spending only the portfolio's interest and dividends. His need for income may influence his asset allocation, leading him to a portfolio full of risky bank stocks, says Anthony Webb, research economist at the Center for Retirement Research at Boston College. And leaving the principal untouched may fit with a retiree's desire to leave money to heirs—or put a crimp in his lifestyle.

As for the popular 4% rule, "it doesn't respond to realized investment returns," Webb says. Retirees drawing fixed dollar amounts from a sinking portfolio, for example, will soon run into trouble.

A spend-down strategy based on RMD rules sidesteps that stumbling block. Owners of traditional IRAs must draw minimum amounts from these accounts after age 70½. These amounts are calculated by dividing the year-end balance by a life expectancy factor listed in IRS Publication 590-B. Retirees of any age can use RMD calculations as a spending guidepost by simply dividing their total year-end portfolio balance by the life expectancy factor listed for their age.

In a recent study, Webb and a co-author found that the RMD strategy outperformed the spend-the-interest strategy and the 4% rule, given a typical retiree's asset allocation. Since the RMD approach calculates the annual withdrawal as a percentage of the remaining portfolio, it is responsive to investment returns. And the withdrawal percentage increases with age, allowing retirees to use more of their portfolio as their life expectancy decreases.

This strategy isn't perfect. It may result in withdrawal rates that are too low, particularly early in retirement—causing retirees to leave behind money that they may have preferred to spend. But if we're entering an extended period of low returns, retirees may want to keep spending rates conservative.

While no simple rule is ideal, retirees may incorporate an RMD approach into a broader plan for covering expenses. A 2010 Vanguard Group paper, for example, found that combining an immediate inflation-adjusted annuity with an RMD approach produced stable cash flows that grew at a faster rate than those of other rules of thumb. **K**



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