



"After they retire, my clients want income."

This statement reflects a common belief held by financial advisors today.

It results in this second common belief.

"My retired clients need an Income Portfolio."

Neither statement is true. When people retire, they want the same thing they wanted before retirement. They want confidence that they will have enough real, after-tax cash to pay for their financial goals. And during retirement, they have as many or more financial goals as before retirement. Most people aren't satisfied with just enough money to pay for basic living expenses; they want money for all the other things that make life fun and rewarding, like cars, travel, education and helping others. It's not income they need, but spendable cash. Where the cash comes from doesn't matter. Cash may be provided by Social Security and Pension benefits. Cash may come from part-time work. Other cash might be provided by rental property, a small business, an inheritance, or the sale of a house. And some certainly will come from their Investment Portfolio. But it doesn't matter how much "income" the portfolio generates, only how much cash can be taken from it to help fund goals.

Now, before you start sending emails telling me I don't understand your clients, let me clarify a few points.

- While your clients need cash, not income, they may be more comfortable receiving some sort of extra "payroll check" each month. But there are many ways to provide the comfort of a monthly check that are not tied to any particular source of income. (See Evensky File)
- The Investment Portfolio you recommend may well include income-producing investments such as bonds, dividend-paying stocks or annuities. The point, however, is that the overall portfolio must be designed to provide an appropriate total return to meet the client's long-term Goals, and the amount of income produced does not have to correspond to some arbitrary income need.

So where should the cash come from? That's what you, the Advisor, get to decide. After you evaluate your client's long-term goal funding needs and all the potential sources of cash, you can design a plan that provides it most effectively. You will take into account many factors:

1. The long-term total return needed to attain Goals
2. Your client's willingness to accept risk
3. The impact of return volatility and sequence
4. Tax efficiency of various investment strategies
5. Your client's emotional need for some type of a "payroll check"
6. The effects of longevity and desire for guaranteed lifetime income
7. Inflation: the unpleasant reality that costs rise - "a dollar isn't a dollar any more."



You have total freedom to recommend the investment strategy that best addresses all of a client's needs. Your choices are not constrained by some artificial amount of "retirement income" it must generate. Your client's Goals, and therefore, the cash they will need to pay for this, will vary greatly over their lives, and, most likely, your investment recommendations will vary over time as well.

One of the great advantages of MoneyGuidePro is its ability to illustrate both aspects of the planning process. First, it makes it easy to develop a sophisticated goal plan that creates a clear picture of the retirement lifestyle your client wants. Then it helps you determine the total investment return that is required to best attain that lifestyle and to illustrate the impact of your investment portfolio recommendations.

Harold Evensky, who acts as an expert consultant for MoneyGuidePro and is a long-time user himself, has a strong opinion on this topic as indicated by their comments.

"One of the most insidious myths in retirement planning is that of the "income portfolio" (and, I'm using "myth" as a nice way of saying "stupid idea"). The myth is exacerbated by the equally silly notion that retirees are "on a fixed income." We all know one of the biggest risks retirees face is inflation erosion. The myth is wrong! An income portfolio is "fixed" by design; inappropriate design. An income policy enforces an inappropriate constraint on portfolio design that, in almost all cases, will result in an inferior portfolio. Eroded by inflation, a "fixed income" portfolio guarantees a lifetime of a continually reducing living standard.

In our practice, using MoneyGuidePro as our modeling and client education tool, we've implemented a cash flow reserve strategy. This involves setting up a second account that we title the "cash flow reserve account," funded with two years worth of the client's anticipated cash flow need. This accomplishes a number of goals:

- *The client is comforted that we have accounted for his cash flow needs.*
- *The client has total control over the timing of the withdrawal of the funds from the cash flow fund.*
- *We are not accepting funds for management that we know we may have to return in just a few years.*
- *Our clients aren't psychologically locked into an artificial cash flow straight jacket. With an "income portfolio" the volatility of the markets determine their standard of living. They spend all of the cash flow during periods of high interest rates and find it extraordinarily difficult to adjust their standard of living downward when rates cycle down.*
- *They don't fall for the marketing hype often seduces investors into products offering high current returns at the expense of total returns and into products offering high returns generated either by aggressive investing.*

We've been using this strategy since the early '80's and it works like a charm."

Harold Evensky, Evensky & Katz