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Effective use of your retirement plan or IRA

By Rolly Reed

You've worked long and hard for years, saving diligently through your employer-sponsored retirement savings plan. Now, with retirement on the horizon, it's time to begin thinking about how to tap your plan assets for income.

First, evaluate your needs. Estimate your non-negotiable basic needs for things like housing, food and medical care. This is how much you'll need just to get by. Then, estimate your income needs for things like travel, leisure and entertainment to determine how much income you'll need for your desired lifestyle. You can adjust the lifestyle items, if necessary, but conventional guidance says you'll need at least 70 percent of your pre-retirement income in retirement.

Second, assess your predictable income. Determine how much you can expect from Social Security and traditional pensions. If your predictable income will be enough to cover your basic needs, you may be in a position to use your retirement savings to fund your lifestyle.

On the other hand, if your basic needs exceed your predictable income, think carefully about how you tap into your retirement savings.

For example, if you have both tax-deferred and tax-free (Roth) accounts, you might consider utilizing tax-deferred accounts first to maximize the tax-free growth potential of your Roth.

Third, understand your plan options. Upon leaving your employer, you typically have four options. Plans may allow you to leave the money alone or may require that you begin taking distributions upon reaching the plan's normal retirement age. You may choose to withdraw the money as a lump sum or receive equal payments for life. You may roll the money into an IRA. Or, if you continue to work during retirement, you may be able to roll the money into your new employer's plan. Be sure to compare fees and expenses for each option before making a decision!

Determining the appropriate way to tap your assets can be extremely challenging and should take into account a number of factors, including income taxes, other income-producing assets, your overall health, and your estate plan.

The good news is you don't have to do it alone. Speak with an accountant, attorney or financial advisor today to learn more about your options.

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