Harvesting Your Nest Egg

For Maximum Benefit

Growing your nest egg is vitally important, but how will you reap your rewards and manage your money once you retire? The final phase of the life cycle of investing—after planting and growing—is harvesting.

Reaping investment gains is not quite the same as harvesting garden vegetables. Unlike vegetables, which may have a brief period of being ripe, investments typically don't need to be "harvested" or sold at a particular time. Often, the longer an investment is left to grow, the better—especially if its growth is tax-deferred.

Retirees tend to have several main concerns—maintaining enough cash flow to meet current expenses and continuing to earn enough on their investments to meet future expenses and not outlive their savings. The key is being able to address these varied concerns without shortchanging or ignoring any of them.

Know what you need

Take the time to add up all your expenses and sources of income. By doing so, you'll establish how much money you need to withdraw from your retirement account(s) to make ends meet. After adding up your typical monthly expenses, tally your Social Security benefits, company pension (if you have one) and any other regular source of income, such as an annuity. The difference between these monthly figures is what you may need to withdraw from your Individual Retirement Accounts or 401(k) or other workplace savings account in order to fully cover your expenses.

Aside from determining and making up the deficit in this manner, be aware of the so-called "safe withdrawal rate" and what that represents for you as you harvest your retirement nest egg over time.

Withdraw at a safe rate

A safe withdrawal rate is one with which you would run relatively little risk of outliving your money over 30 or so years. For some individuals, this may mean you withdraw no more than 4% to 5% of a retirement account balance each year. By beginning your retirement with that restriction, you'll tend to have greater financial flexibility down the road. Then, depending on the state of your investment account and your ongoing expenses, you could adjust that amount in future years.

Here's a two-part method that may help you meet your current and future expenses:

1) Consider annuitizing part of your nest egg in order to guarantee some steady monthly income as long as you live. One approach is to buy an annuity that can pay for some or all of your regular expenses, such as mortgage payment or rent, utilities, basic groceries, and insurance premiums. Then, use your retirement account withdrawals to pay for extras, such as travel and other leisure pursuits.

2) If you are confident that you won't need certain assets for five or 10 years or longer, consider investing them more aggressively. Having some money invested in equity mutual funds may be able to help you outpace long-term inflation and preserve your purchasing power. By having your short-term financial needs met by regular retirement income sources—Social Security benefits, pension, an annuity, and/or short-term conservative investments—you'll be freer to invest more aggressively for longer-term goals.