

Step-by-Step Instructions for Retirement Planning

A common question clients have is "**How much money can I draw from my investments?**" These instructions teach you how to use the Retirement Income Navigator to help answer that question, and develop a plan for providing the investment income along the way. The plan will include:

- Long-Term Stock Holding Periods
- Guaranteed Investment Income During the Stock Holding Periods
- A Highly Specific Approach That Works With Real Financial Markets!

Step 1. Entering the Basic Information

On the main screen, start by entering the following basic information.

1. **Beginning Capital:** We've assumed the client has \$700,000.
2. **Annual Income Need:** Leave this blank for now.
3. **Payment Period:** How frequently income payments need to be drawn. We've indicated quarterly payments.
4. **Years in Scenario:** The number of years to include in the analysis. We've entered a 30-year retirement period.
5. **Anticipated Inflation:** Enter the estimated average annual inflation rate. We've assumed 2.50%.
6. **Other Options:** We will not be using custom income, other sources of income, or multiple allocations, so clear those checkboxes. We've assumed that dividends are recalculated each year.

The screenshot shows the main screen of the Retirement Income Navigator software. It features several input fields and checkboxes:

- Beginning Capital:** \$700,000
- Annual Income Need:** \$0
- Payment Period:** Quarterly
- Years in Scenario:** 30
- Anticipated Inflation:** 2.50%
- Custom Income Needs
- Other Sources of Income
- Multiple Allocations
- Inflate Dividends?

Step 2. Initial Investment Allocation

Enter information about the different investment categories available. Do not worry about the **Percentage** row at this point. We'll have the Retirement Income Navigator calculate that for us later on. This investment information should reflect the investments that you expect to be available when the client retires.

The screenshot shows the "Initial Investment Allocation" screen. It displays a table with four columns representing investment categories: Fixed Rate, High Yield, Blue Chip, and Growth. The rows represent different metrics: Total Return, Dividends, Holding Period, Percentage, and Minimum Allowed. A button labeled "Edit Investment Names" is located at the bottom right.

	Fixed Rate	High Yield	Blue Chip	Growth
Total Return:	3.31%	6.00%	7.50%	9.00%
Dividends:		4.00%	2.50%	0.00%
Holding Period:		8	8	10
Percentage:	100%	0%	0%	0%
Minimum Allowed:	0%			

- **Fixed Rate Return**

To ensure that stocks will not have to be sold sooner than planned, we need to make sure that income will be provided from fixed rate investments during the stock holding periods. In this example, we're assuming 3.31%. However, if you would like to estimate the average annual total return for a series of fixed rate investments, click the computer button next to the *Fixed Rate Total Return* input field. See the [General Tutorial](#) for more information about estimating the Fixed Total Return.

- **Stock Total Return**

Enter the estimated average annual total return that can be achieved by holding the investments for the holding period (see below).

- **Stock Dividends**

If you would like to assume that stock dividends are used to support investment income, enter the projected annual dividend rate(s). If the stocks that you plan to invest in do not pay dividends, or if you would like to assume that stock dividends are reinvested, leave the dividend rate set at 0%.

- **Stock Holding Periods**

Enter the number of years that you would like to be able to hold stocks without having to sell them to maintain income. We assume a maximum holding period of 8 years for blue-chip and high yield stocks and a maximum holding period of 10 years for growth stocks. This does not necessarily mean that stocks will be held this long. If market conditions are favorable, it may be wise to sell some stocks earlier. The key is to give yourself some time so that you are not forced to sell stocks for income during a down market.

Step 3. Income Needs

Before going any farther, let's make sure we take inflation into account. On the *View* menu, there should be a checkmark next to *Adjusted Value Dollars*. If there isn't one, click to put one there.

Now, we're at the crux of the problem. How do we allocate to maximize income, and what will that income be? Click the *Optimize Investment Allocation* button to find out.

Meeting Your Goals

In order to create the scenario that best fits your goals, we need to know what they are. Please select one of the following:

- Reallocate for maximum ending capital.
- Find the highest income available from the investments.
- Find the lowest capital that will support the income needed.

Investment Strategy

Select "preserve capital" to ensure that your initial investment is not consumed during retirement.

- Preserve Inflation Adjusted Capital
- Consume Capital

Optimization

Searching for the optimum strategy can take a significant amount of time, especially if you are optimizing to maximize income. Select how precise you would like to be. A higher number is less precise, but quicker.

Allocate to Nearest: Find Income to Nearest:

 **Calculate Optimum Investment Allocation**

Our goal is to find the highest available income, of course. The question of strategy is a little tougher. We've elected to be more conservative and preserve the inflation adjusted capital throughout the analysis. Finally, we've selected to allocate to the nearest 1% and find the maximum income allowable to the nearest \$1. Click *Calculate Optimum Investment Allocation* to see the answers. Searching over 4 million scenarios can take a little while, so sit back and relax. Once it has finished, you'll see the optimum allocation and the income that can be provided.

Calculated Optimum Allocation	
Fixed Rate: 45%	Blue Chip Stocks: 2%
High Yield Stocks: 0%	Growth Stocks: 53%
Annual Income: \$33,747, Ending Capital: \$703,847	

(remember that this is the allocation that maximizes income while preserving *inflation adjusted* capital)

Click OK to use this allocation and income.

Step 4. Polishing the Plan (optional)

You could skip this step and just print the results, but with a little bit of tweaking you can turn a mathematically correct plan into one that fits your client. First, take a look at the investment mix. The program found the optimum allocation for the highest income, but you might want to modify this to a diversification strategy you are more comfortable with. For example, let's diversify a bit and put at least a small percentage into High Yield and Blue Chip. Type 45% into the Percentage row for Fixed Rate, 5% for High Yield, and 5% for Blue Chip. Notice that as you enter each percentage, the others are adjusted to always add to 100. Because of this, it's easier to enter data if you start with Fixed Rate, and just enter the rates across.

Percentage:	45%	5%	5%	45%
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Now that we've changed the allocation, the client is running out of money. Click the computer button  next to the *Annual Income Need* input field. This window shows you the income that can be supported by the new investment allocation. Click OK to use the new income value in the program.

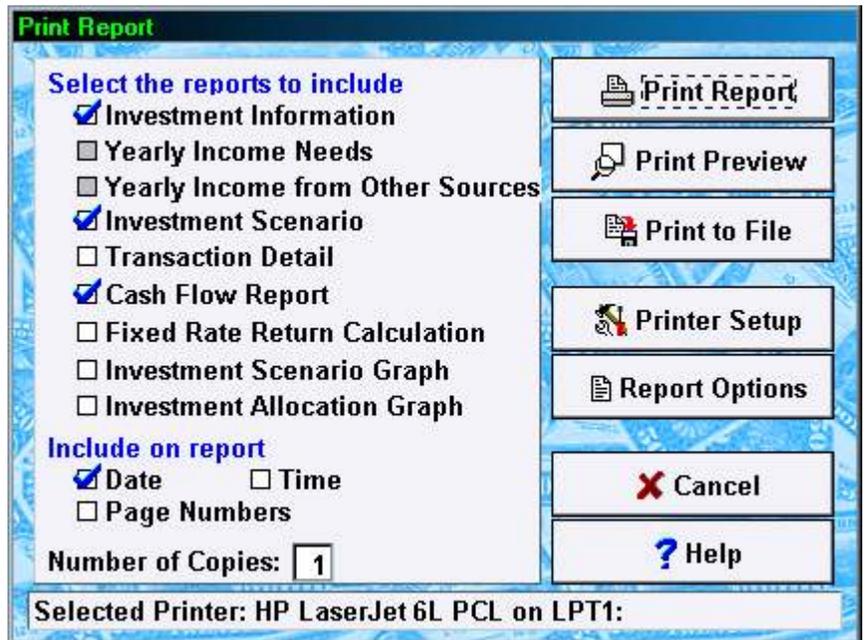
Step 5. We're Done!

Before going any farther, it's important to save your data. Select *Save As* from the *File* menu and name the file. This way you'll be able to load the data again in the future.

Click the printer icon on the toolbar (or select *Print* from the *File* menu) to print the final report.

Only those reports with data are available to be selected. Go ahead and select all of them, and then click *Print Preview* to see what they look like. If you'd like to customize the reports with your own name, or with different fonts, click *Report Options*.

Once you're ready, click the *Print Report* button to print the report. If you'd rather print the reports to a document for editing, e-mailing, or inclusion in your own document, click *Print to File*.



Print Report

Select the reports to include

- Investment Information
- Yearly Income Needs
- Yearly Income from Other Sources
- Investment Scenario
- Transaction Detail
- Cash Flow Report
- Fixed Rate Return Calculation
- Investment Scenario Graph
- Investment Allocation Graph

Include on report

- Date Time
- Page Numbers

Number of Copies:

Selected Printer: HP LaserJet 6L PCL on LPT1:

Buttons:  Print Report,  Print Preview,  Print to File,  Printer Setup,  Report Options,  Cancel,  Help