

Using Your Investments to Pay for Your Retirement

The difference between your total income and your total expenses is your net savings. If this is negative (as it is for many affluent retirees), you'll need more cash flow from your investment portfolio to ensure you're able to cover all your expenses.

The issue will be generating cash flow from your portfolio to bridge this gap.

Income vs. Cash Flow

There is a key distinction between income and cash flow. Income is money *received* and cash flow is money *withdrawn*. For example, dividends and bond coupon payments are indeed considered income—you report them as such on your tax returns. These are two completely acceptable sources of funds. But if you rely on them solely, you could be selling yourself short. On the other hand, selling a security also generates cash flow. When you sell a security, the difference between what you put in and what you take out is considered a capital gain (or loss).

Note, cash flow withdrawn from your portfolio isn't a bad thing—and can be a very important component of your overall retirement strategy.

Consider: If you have a portfolio of \$1,000,000 growing at 10% a year, and you realize \$100,000 in annual gains, this really isn't any different than a portfolio growing at 5% a year that pays \$50,000 in dividends. The total return (i.e., capital gains + dividends) is the same on a pre-tax basis; and, depending on your situation, selling a security and paying tax on the capital gains may be more tax-efficient than dividend income!

Bottom line: When it comes to paying for your retirement, you should only be concerned about the total return of your portfolio and after-tax cash flow—not whether it comes from selling securities or regular income.

Today: This is a particularly important distinction in the investing environment. Interest rates have been at historical lows with limited prospects for significant increases going forward. This means that cash flow from a retirement portfolio is increasingly playing a more important role than income.

Determining What You Need from Your Portfolio

Income	Amount	% of Total
Non-Investment Income		
Salary	\$	
Pension	\$	
Social Security	\$	
Business and Real Estate	\$	
Other	\$	
Total Income:		

Expenses	Amount	% of Total
Non-Discretionary Spending		
Basic Living	\$	
Mortgage	\$	
Credit Card Debt	\$	
Taxes	\$	
Insurance	\$	
Health Care	\$	
Non-Discretionary Subtotal		
Discretionary Spending		
Travel	\$	
Hobbies	\$	
Luxuries	\$	
Gifts to Family/Charity	\$	
Other	\$	
Discretionary Subtotal		
Total Expenses:		

Surplus (+) / Deficit (-)
