PACIFIC LIFE insights

SOCIAL SECURITY RETIREMENT STRATEGIES GROUP JUNE 2021

UNDERSTANDING THE ROLE OF PROTECTED INCOME IN A FLOORING STRATEGY

Managing withdrawals from a portfolio is one of the more difficult and stressful parts of retirement income planning. Financial professionals can offer protected income solutions to help their clients plan.

The flooring strategy is a method for determining a client's spending in retirement and splitting it into *essential expenses* and *variable expenses*, or more simply–needs and wants. Essential expenses are used to calculate the income floor that should be covered with a predictable (protected) source of income. Additional expenses can be covered by managing systematic withdrawals from the portfolio. The idea is that in times of portfolio stress (market volatility), the client can dial back on the wants part of spending, assured that the floor income will continue to cover basic expenses.

For many, the issue is how to provide the floor income. First, floor income should come from sources that are predictable and preferably guaranteed. Typically, the base of this is the individual's Social Security benefit. However, that benefit is designed to provide replacement of only 40% of income for the average wage earner. The percentage is even less for a high earner's income and must be supplemented with other sources of protected income. Typically, this may come from things such as pension, bond and CD ladders, a single-premium immediate annuity (SPIA), a deferred income annuity (DIA), a reverse mortgage, and for some clients, optional benefits with annuities, available for an additional cost.

Everyone will have different expectations as to what the income floor should be and how to provide it. Fortunately, there are several income options that can provide customization for a wide variety of needs, including solutions for income now versus income down the road. There are a number of potential floor income solutions that may help deliver consistent income.

Additional Resources and Links

[Retirement Strategies Blogs about Social Security]

[Social Security Strategies Guide]

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
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