

# COMPASS WATCH

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## RETIREMENT *INCOME* PLANNING (ASSETS AREN'T ENOUGH)

Investors are currently being reminded that simply accumulating assets such as homes is not enough to prepare financially for retirement. Now that the housing bubble is rapidly deflating, the lack of liquidity in these investments, coupled with the fact most homes consume, rather than produce a rapidly increasing amount of income has made these assets less appealing in preparing for retirement. (See Compass Watch, Winter 2005, "Are Homes Good Investments?").

Retirees are facing rising costs in a number of other areas as well. Property taxes have been moving up dramatically for years, and lawmakers are talking about major increases in state and federal income taxes in the years ahead. Health care expenses have also been increasing, as we all know. Fidelity estimates that "a 65-year-old couple retiring today could expect to pay \$215,000 to cover medical costs in retirement, a 7.5% increase from the 2006 estimate...." (Investment News, April 9, 2007, "Advisers bolster retirement income, report shows," p.16). Then, add to these the dramatically increasing costs for energy and utilities.

Unfortunately, many investment products offered retirees do a poor job of addressing their income needs effectively. For example, in addition to high fees, annuities (which are commonly sold to retirees) typically pay out income that is taxed at "ordinary" income tax rates (as high as 35% at the present time for just federal taxes.) Annuities can create significant estate tax problems as well.

At Compass, we think we have a much better way of meeting the income needs of retired clients. To generate a dependable and predictable income stream, we invest a portion of the portfolio in individual, high-quality, intermediate-term bonds (1-10 years to maturity). For clients in moderate to high tax brackets, we invest in municipal bonds, which are exempt from federal tax, and in the case of Minnesota residents, are frequently exempt from state tax as well.

We have also produced a rising income stream for our clients by buying quality growth stocks paying dividends which increased over time. In fact, the twenty companies in our stock portfolios which pay dividends increased those dividends by over 22% on average last year! Since the consumer price index (inflation) was less than 2% in 2006, these stock dividends represented a significant boost in "real" income for our clients who held those stocks. The fact that qualifying stock dividends are taxed at only 15% (federal) vs. 35% for top bracket annuity income is also a significant advantage.

Creating and managing portfolios which meet client needs for rising income, while also addressing risk, tax and estate-planning issues, is an important service we provide at Compass. This is what we mean by "custom" portfolio management - - we build portfolios one at a time, to reflect each client's distinctive needs and goals. If you would like to discuss your investment objectives, please give us a call. We would thoroughly enjoy visiting with you.

**\*\* For more information, visit and bookmark our website: [www.compasscap.com](http://www.compasscap.com) \*\***