

Do Income Funds Make Sense?

Income replacement funds aim to replace annuities as a way for retirees to manage their spendable assets during the years they expect to be in retirement.

Aimed at the Baby Boomer Market, mutual fund leaders Fidelity and Vanguard are among others getting into this product, which are a bit like target-date retirement funds in that they start with a pile of stocks, bonds and cash that grows more conservative based on the dates you'll need to draw those assets. Essentially, that means if you're retiring in 2020 and you want money available through 2040, you pick a fund that's labeled for that withdrawal window, and you accept that such funds are invested properly for that timeframe.

Generally, after taking an expense fee, the fund pays the investor a rising percentage of their account value each year until the balance runs out in the termination year. The idea is that you'll get a relatively stable income stream that may keep up with inflation.

It all sounds good, right? Beware of the following:

There's no exact guarantee on how big the payments will be, unlike most guaranteed annuities that set fixed payments. That means that if the market slides, so will your payments; it is possible to outlive your money, so be very careful in planning how and for how long these payments will be made.

There's nothing wrong with investigating these mutual funds, and depending how much retirement savings you have and what your needs will be, they may be one of a series of options you use as interlocking parts of your overall portfolio to arrange a flow of income in your non-working (or partially working) years. But they are mutual funds; and like all mutual fund choices, they are not one-size-fits all solutions, and it's good to get some advice that fits your situation.

Keep in mind that investment products are a lot like new car models – sometimes it makes sense to wait a year or two to get the kinks are out. Products attempting to address various financial concerns are being designed daily. By all means study the advantages of such products, but keep in mind that these products might be reconfigured to make later versions more attractive and always note that there are product costs to having “concerns or risks” addressed in product design which should be weighed against costs, and perhaps flexibility, of “active” oversight.

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what we get. We make a
life by what we give."**

Sir Winston Churchill

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Why should I prepare for disability? I'm young.

The Social Security Administration says that 20% of the population will be disabled for a year or longer before reaching age 65; only 13 percent of American adults believe it's “somewhat” or “very likely” they will be disabled.

Most of us have some life insurance, but we have a greater chance of being disabled, than dying prior to age 65. Furthermore, if you are disabled, it is likely you will have increased expenses to cope with, as well as the reduction in earnings potential.

Fifty-six percent of families would be unable to pay their bills if they were disabled for more than one year. Although 44% of households have long term disability coverage; 71% report that it is provided by their employer. Disability is a risk that can impact young and old alike.