7 Ways to Turn $250,000 Into Retirement Income

Crack into a nest egg without breaking it: Simple, safe ideas on generating income in a low-rate world

By RICHARD SATRAN

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With 10,000 baby boomers hitting retirement age every day, financial planners are hearing a lot of questions about how to convert savings into income while interest rates are at rock-bottom lows.

We asked eight advisers the same simple question: What would you advise someone who wants to turn $250,000 from their retirement savings into a steady income stream today? Assume this retiree has other assets in a diversified portfolio and this is the amount set aside purely to generate income.

Why the quarter-million number? Because U.S. Census Bureau data shows that the average net worth of a 65-year-old with some college education is $500,000. That person can put half of his or her overall net worth toward income generation and still have Social Security and other assets to draw on to maintain a diverse portfolio and a source of emergency funds.

Here is the advice of the financial planners on investing $250,000 for income:

Use the Ladder: Russell Francis, Portland Fixed Income Specialists, Beaverton, Ore.

"I would ladder a diversified combination of taxable CDs, 'taxable' munis and corporate bonds and hold them to maturity. The ladder would initially be from 1-10 years, and as they mature, we would reinvest unused proceeds further out in the ladder, likely increasing yield to counter inflation." Laddering is the term used for varying bond holdings so they mature at different dates.

[Read: 5 Ways to Sabotage Your Nest Egg.]

Consider annuities with inflation protection: Chris Long, Long Financial Planning, Chicago

"This will provide a guaranteed income with inflation protection. It will also provide higher income than [individual investors] could withdraw if they managed the money themselves. I ran a quick quote for immediate annuities through Income Solutions [an annuities advisory] for a 65-year-old man beginning May 1, 2013. I received quotes of $994-$1002 per month with a 3 percent increase each year. This represents a withdrawal rate of about 4.8 percent a year."

Use annuities and short-term bonds as an anchor: Rand Spero, Street Smart Financial, Lexington, Mass.

"Choosing an immediate annuity plus short-term bonds can be an option to explore now for the $250,000 investment. One can consider diversifying the short-term bond funds to include a small portion of emerging market bonds that have higher yields and some growth possibility over the next 20-plus years. Overall, I would be cautious now given the current low interest-rate environment to get locked into anything long-term."

[Read: Will Your Target-Date Funds Retire Before You Do?]

Use stock dividends to provide income: Dennis Stearns, Stearns Financial Group, Greensboro, N.C.

"Given that dividend payout ratios for high-quality dividend-growing stocks are at a multi-decade low, and that these stocks would provide over 3 percent cash flow growing at an average of 5 percent to 10 percent or more per year, we would put half the money in this area. It's the safest time in decades to own high-quality stocks if you're focused on cash flow," Stearns says. He cited AT&T and Verizon as examples. Then there's mutual funds: "Put the other half in opportunistic bond managers like Loomis Sayles Bond, Pimco All Asset and Total Return [funds], Osterweis Strategic Income and Pioneer Strategic Income. The yield would be over 4 percent with a good ability to adjust to future bond conditions as interest rates begin to rise," he says.

Remember to factor in required minimum withdrawals: Robert Reed, Personal Financial Advisors, Covington, La.

"At 70.5 years, the required minimum distributions [RMDs] start. So, one could set up a portfolio of laddered CDs and U.S. government and agency bonds to approximate the RMD. This would as much as guarantee the assets and provide for income via the RMD. This strategy would work even if one didn't tie the asset maturities to RMD," Reed says. He suggests working with an adviser since "there may be opportunities to enhance the income over time, depending on interest-rate fluctuations."

[See 7 Mutual Funds That Make Huge Bets]

Cash and Treasury Inflation-Protected Securities (TIPS) will be best as inflation rises: Jay Hutchins, The Wealth Conservatory, Lebanon, N.H.

"The prospects for inflation and rising interest rates renders everything except cash and short-term TIPS risky, and both cash and short-term TIPS generate very low income. But given your criteria [of steady income stream], some sort of immediate annuity from a strong insurance company—or maybe even divided between a couple—would likely fit your bill best."

Generate income with dividends and fixed income: Maryan K. Jaross, Gold Medal Waters, Boulder, Colo.

Create a portfolio "across the market in all asset classes, [which] generates interest from the fixed-income side as well as dividends through the equity side, plus additional cash when asset classes need to be rebalanced. Selling the winners and reinvesting in the losers—the hardest discipline for an investor to achieve without the assistance of a professional adviser—because we never know which asset class will be at the top. Cash is taken out at these points to satisfy goals, the most important of which is usually the retirement living expense."

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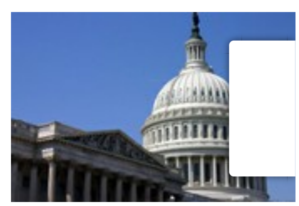

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