Chapter 3

PROBLEMS WITH COMMON INCOME STRATEGIES

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

– Mark Twain

I've been fortunate to be the keynote speaker at several conferences and conduct workshops as a national coach to other financial advisors. In addition, I've been privileged to spend time visiting with some of the brightest minds on Wall Street.

I share all of that for one reason.

In my experience, research, and discussions with other high-profile financial professionals, I've learned a few things. These are things you can only learn if someone goes out of their way to show you. They are not obvious, but once you see it, you can't unsee it (in a good way).

Please take my experience and research and embrace the reality of these popular retirement income strategies so:

1. you don't have to learn the hard way with your own retirement.
2. you can become obsessed with your retirement, these universal rules, and framework found within this book like I have.

Chances are, you've created a plan around one of the strategies I outline below. If you have, then I'm asking you to please keep an open mind. Changing strategies can feel hard, especially with so much at stake. But, at the end of the day, all I want is for you to have all the right information.

The reality is, if these common retirement income strategies were as good as people claim, I'd be recommending them myself. I've seen too much to stay silent. That's why I wrote this book. I want to help you. That includes helping you not get blindsided by the risks of these popular retirement income strategies.

If you'll allow me to explain these strategies and their risks, I promise to show you how I design people's retirement plans to last longer than them with portfolios that offer a blend of growth potential, principal protection, and liquidity.

Now, it's possible that one of the strategies I will be discussing happens to be your current strategy. Please keep an open mind as my intention is not to criticize you. My purpose is to help you see the risks you may be taking while helping you consider a different way to manage your retirement and portfolio. When implemented correctly, these strategies may be able to help you increase your long-term growth potential while lowering your overall risk. It's not about "who is right." I want to focus on "what is right." I promise to show you the light by the time you finish this book so you can walk away feeling excited about your future.

Are you ready?

Let's begin.

COMMON INCOME STRATEGY #1: THE 4% RULE

One of the more common retirement income strategies is called the 4% rule. The idea is that if stocks average around 7%–8% year over year and if your bonds and bond funds average around 3%–4% year over year, you could take 4% of your portfolio as retirement income and be fine. Seems easy enough, right?

What makes this strategy more appealing is it's probably similar to what you've been doing for years. Plus, it offers more growth potential and flexibility than other common retirement income strategies. Who doesn't love growth and flexibility?

The problem can be found in something called *sequence of returns risk*, which suggests that when it comes to dollars and cents, the sequence of the return matters. There are two major problems when you consider this risk. The first is the deception behind return averages. For example, did you know that it is possible for your account to grow faster with a 6% average return than an 8% average return? Here's how that works.

Say you invest $100,000 in the market. In year one, the market gets hit hard and you get a -30% return on your investment, leaving you with $70,000. In year two, the market recovers and you get a 19% return, leaving you with $83,300. In year three, the market takes off and you get a return of 35%, leaving your account with $112,455.

The average return based on the annual performance is 8% (-30%, 19%, and 35%). However, the three-year return based on the ending cash value is around 12.46%. Now divide that by three and you get an average return, based on the ending cash value, of 4.15% per year. Eight percent is very different than 4.15%.

Now, let's run it again. Say you invest $100,000 in the market. In year one, you get a return on your investments of 7%, leaving you with $107,000. In year two, you get a return on your investments of 5%, leaving you with $112,350. In year three, you get a return on your investments of 6% again, leaving your account with $119,091.

The average return based on the annual performance is 6% (7%, 5%, and 6%). However, the three-year return based on the ending cash value is around 19.09%. Now divide that by the three years and you get a 6.36% return per year. It doesn't seem like it should be this way, but it's hard to argue with math.

Consider the following. If you were to lose 10% in your portfolio, it would take an 11% gain to break even, not 10%. A 1% difference is not huge. However, if you were to lose 30% in your portfolio, you would need a 43% gain to recover. The deeper you dig, the harder it is to get out.

Now imagine you are retired, and the markets crashed. Your portfolio takes a 30% hit. You still need your income, so you take out around 4% of your assets as income. You are now down 34%. It will now take a 50% return just to break even.

Instead of leaving your losses at a negative 30%, requiring a 43% gain to break even, you accentuate your losses to 34%, requiring a 50% gain just to break even. That's an additional 7% gain you now need because you took income from an account that had already lost money.

The big takeaway here is in retirement, avoiding the losses can make a huge difference. The reason why the 8% return did worse than the 6% return is because it took a major loss in the first year. To put that into perspective, those who retire and keep most of their investment in a stock/bond portfolio and then experience a market crash early on in their retirement are mathematically at a disadvantage.

It can take years to recover from a market crash. Investors can have short term memories, which can expose us to an unnecessary amount of risk. We won't go too deep into detail here, but consider the following historical market data and its patterns. Even though market performance cannot be predicted or assured in the future, it is interesting to consider the following:

- The markets historically tended to correct (-10% or so) every 1.8 years[2]
- The markets historically tended to crash (-30% or more) every 7–8 years[3]
- The markets historically tended to go flat every 18 years or so[4]

If you take nothing else from this book, I hope you understand this important point. How and when you draw your retirement income matters.

One of the three retirement rules we will be discussing in this book is called the Rule of Income, which suggests that you only draw income from accounts that have not received significant losses. Failing to do so may have negative effects on your income and assets and may ultimately compromise your retirement.

Now imagine for a moment if you were able to pull income from an account that hadn't lost anything during a market crash. This problem essentially goes away, right? The solution is simpler than you may realize. I'll show you how to do that later in the book.

For now, take a moment and check in with yourself. If you can't say yes to the following questions, you could be taking more risk than you realize.

SUCCESS CHECK-IN EXERCISE

Before we proceed with the rest of the book, let's first check in with where you are right now with your retirement preparations. You can still complete the check-in if you are currently retired.

Below, rate yourself on a scale from 0–5 on how accurate the statements are—0 means "not accurate at all," and 5 means "most accurate."

Once you've rated yourself for each statement, total up your scores and then use the Answer Key to determine your next steps.

Success Check-in Statement	Self-Rating
I know how much income I can afford to take this year and not run out of money.	
I know how much income I can afford to take in five years and not run out of money.	
If the markets were to crash next year, I could pull enough income from my assets without accentuating any losses.	
If the markets were to crash in five years, I could pull enough income from my assets without accentuating any losses.	
I am prepared for three to four significant market crashes in retirement.	
I am prepared for a potential ten-year period of no returns in retirement.	
Market conditions will not affect my lifestyle or travel plans.	

WHAT YOUR SCORE REALLY MEANS

SCORE: 0–28
HOW THINGS HAVE ALWAYS BEEN DONE COULD HURT YOU

If you ended up here, chances are you haven't retired yet or you kept investing the same way you have always invested.

You may think that the upside potential and good years will offset the down years. That may be true, but only if you do not touch it.

When you retire, you need to be able to generate income. Hopefully, the pages of this book will show you that you don't need to take that much risk. You don't need to be the richest person in the graveyard. It's all about time and how you want to spend it. Please commit to finishing the book and keeping an open mind. You may be surprised at what you find.

SCORE: 29–31
EVERYTHING IN LIFE IS A TRADE

If your score landed you here, chances are you are still holding on to something. Maybe it is hope for a good year to make up for past losses. Maybe you want to prove to yourself that you are an intelligent and successful investor. Whatever it is, let it go.

You don't want to retire from retirement and have to go back to work. There's no such thing as a perfect investment. There's no such thing as a perfect investment strategy. The Kedrec Wealth Plan™ could be the missing piece to help you shore up your current plan and supporting strategies. Even if you don't like what you read today, the fact remains, there are some areas that need attention and possible adjustments.

SCORE: 32+
TIME TO ENHANCE YOUR PLAN

You've done your research and you've got a plan for every possible outcome. You're confident in your strategies and are sleeping well at night. There's just one problem: You've hit the limit of your own abilities.

It's time to take your plan to the next level. Whether that is doing a deep dive into tax minimization strategies, or optimizing your growth potential overall, there's still a lot you could learn from this book. By the end of the book, you will discover additional products and investments, and their underlying strategies that you often can't get as a retail investor. I'll show you where to go to get them and how you could consider them in your plan.

POPULAR INCOME STRATEGY #2: THE ANNUITIZED INCOME STREAM

When someone realizes the amount of risk a stock/bond portfolio has in their retirement income, and how taking income from accounts that have lost money can be detrimental, they might start panicking. "What else can I do to ensure my retirement will last?" This is where insurance agents often come in and offer "guaranteed income for life."

They may say something like, "Imagine an investment that grows with the market without any risk of losing money. When you are ready, you can turn on your income, which is guaranteed for life!" Sometimes, agents will offer an income annuity with a special lump sum bonus to kick-start your retirement savings. Sounds like free money, right? Are you getting suspicious?

The sales pitch doesn't stop there. Sometimes, prospective clients are promised that the income annuity is guaranteed to grow by at least 15% every year until you start your lifetime income. If the market averages 7%–8% each year, you'd be stupid not to lock in such a fantastic rate, right?

Can you feel your stomach starting to turn, yet? If it sounds too good to be true, it usually is. Here's what they are actually selling…

If you calculate your lifetime income amount's average rate of return based on the cash surrender value (not the annuity contract value or income benefit value), you may be disappointed. Once you start taking income under the annuitization option, you can no longer cancel the annuity for cash and get the lump sum of money back. **The choice to annuitize is irrevocable.**

Why does this matter? Inflation. If inflation outpaces your annuitized income stream, then you could be losing your ability to sustain your quality of life. This is called purchase power risk.

Imagine trying to live today based on wages of 10–20 years ago. It'd be tough, right? Now imagine agreeing to a lifetime wage 20 years ago. Once started, that wage could not be negotiated. Would you have got it right? It's hard to imagine, even after living through it, how much the world has changed in the last 20 to 30 years. Imagine what things will be like 20 years from now.

When you buy an annuity and turn on the income, you are transferring longevity risk to an insurance company. It is an insurance product, not an investment. The reason why insurance companies can offer an insurance product that offers lifetime income is because they are able to pool together a large number of people, knowing the odds are in their favor. They know that the majority of those receiving their income in retirement will pass in time for them to make money. Sure, a few policy owners may live longer than expected, but the house always wins.

I want to be fair to all those who are reading this. If all you care about is guaranteeing your income for life, then maybe purchasing an annuity and turning on the lifetime income benefit may be right for you. However, the lack of flexibility once the income stream is turned on is concerning, at least from a comprehensive and holistic perspective. The annuity income stream can limit your ability to do tax planning. Inflation can erode your guaranteed income, which can make it more difficult to afford your desired lifestyle. Your legacy goals may take a hit, and so on. Remember, there's no such thing as a perfect investment, product, or strategy. It is important to know what you are giving up when you pick any investment, product, or strategy.

At this point, if you have annuities, you may be upset and want to put this book down and review those accounts. If you have one (or several), continue reading. After the check-in assessment, I'll walk you through how to better vet your annuities with a little worksheet.

Whatever the results are, please promise me you will finish the book. We are still going through the other problems with popular income strategies. In Part 2, we'll walk through how to find solutions. I want to show you how you can benefit from the financial assurance these annuities can offer without locking up the assets for life.

I hope that as you review your annuities, they turn out to be better than expected. If not, don't panic. There may be ways to fix or adjust them. We just need to take this one step at a time. Finish the book and then schedule a call with my team. Remember, we want to help you.

I'll see you in the next section.

SUCCESS CHECK-IN EXERCISE

Before we proceed with the rest of the book, let's first check in with where you are right now with your retirement preparations. You can still complete the check-in if you are currently retired.

Below, rate yourself on a scale from 0–5 on how accurate the statements are—0 means "not accurate at all," and 5 means "most accurate."

Once you've rated yourself for each statement, total up your scores and then use the Answer Key to determine your next steps.

Success Check-in Statement	Self-Rating
I have flexibility with my investments and products.	
My retirement income is expected to keep up with inflation.	
All of my investments and products, based on their cash value, are growing at a reasonable rate.	

If markets were to crash and I didn't want to pull income from my accounts that have lost money, I would still have enough liquidity to handle a major life event, like a new roof or car.	
I have a comprehensive plan that dictates what investments and products I should have and how I should use them. (Basically, I did not just buy an annuity to solve everything)	
I understand how my investments and products work.	
I understand and am comfortable with the fees associated with my investments and products.	

WHAT YOUR SCORE REALLY MEANS

SCORE: 0–28
FIXING CAN BE PAINFUL

Whether you've got fees that are too high, not enough liquidity, investments are not staying competitive, or something else, addressing it and fixing it can be painful. That doesn't mean that you surrender your annuities, liquidate your stocks, and start all over. It means the best thing to do is keep reading and see how you can slowly and deliberately transition from where you are now to where you want to be.

As you read the book, imagine that you've got complete freedom to invest however you want. Once you finish putting your plan together, then you can start working backward so you can figure out what needs to be done every step of the way. You got this.

SCORE: 29–31
A FEW ADJUSTMENTS WON'T HURT

You're likely only a few adjustments away from the retirement you want. There are probably a few investments or products you want to sell so you can move on to bigger and better things.

The good news is you probably have a good foundation. Now it's time to work on some renovation. As you continue to read, consider what the book proposes and how it may be able to further enhance your overall retirement and potentially help you reach your financial goals faster.

SCORE: 32+
TIME TO ORGANIZE

Chances are, you've got the right investments and products. It is now time to potentially make a few adjustments to try and get more out of them. Where and how to pull income can take a lot of planning upfront. Once everything is set correctly, it can be very easy to manage.

As you read the rest of the book, pay attention to the protocols and strategies. They may be able to help you get more out of your investments and products as you continue through retirement.

SELF-GUIDED ANNUITY REVIEW

If you have an income annuity, call the insurance company directly and ask them these questions to determine if it makes sense for you to keep your annuity or to look for other options.

What type of annuity is this? (circle one)

- ☐ Income Annuity - SPIA (focused on guaranteed income for life)
- ☐ Fixed Annuity with Rider (focused on guaranteed income for life)
- ☐ Fixed Annuity (fixed interest, principal protected)
- ☐ Fixed-Indexed Annuity (variable growth potential, principal protected)
- ☐ Variable Annuity (variable growth potential, not principal protected)

How much was originally invested?

____

What is the current cash surrender value?

____

What is the average annual return based on the initial cash value?

____

What fees, if any, are deducted directly from my annuity value?

____

How long until I can liquidate my annuity without a surrender penalty?

____

Please note that as you assess your annuity, remember that all annuity withdrawals are subject to ordinary income taxes, as well as a 10% federal penalty if a distribution is taken out before the age of 59 ½.

There are a lot more questions that could be asked, but they go down a few rabbit holes. This should get you started in discovering if your annuity is doing what you had originally hoped for, or not.

POPULAR INCOME STRATEGY #3: THE PENSION

If you have the fortune of being offered a pension, consider yourself blessed. They are getting more and more rare. However, everything, including pensions, has its benefits and its detriments. While the benefit of getting lifetime income sounds nice, there are a few things to consider.

First, make sure the pension plan is well funded. You do not want your pension going away because of poor business decisions by your employer. It is rare, but it does happen from time to time.

Second, consider the effect that taxes could have on your pension. Since pensions are taxed as ordinary income, if taxes go up, your net income goes down. No one can know the future of taxes, so you'll need to consider what you expect will happen with future tax rates and then plan accordingly.

Third, a pension can forfeit any possible benefits to your kids. If you were to take the pension and then pass sooner than expected, it's all gone. Depending on your lifestyle and legacy goals, that could make a difference.

All that said, pension income streams are more often elected over the lump sum. Why? I believe it is because pensions are considered less risky than the market and tend to offer a more competitive income stream than if you were to put it into an annuity and annuitize it.

I don't want to discourage you from electing to take the pension. However, later in the book, I'm going to show you how to compare your pension option to the lump sum option. I want to show you what it could look like if you were to take the lump sum and slowly convert it from pre-tax dollars to tax-free dollars for two reasons. One, you will probably need it for income. These types of conversions can help lower future tax liabilities. Two, to pass on assets more efficiently to your heirs.

The choice is yours to make. My job is to explain the risks and compare your options so you can make the best decision possible for your unique situation. If you have a pension, then please do this quick Success Check-in Exercise. If not, just skip it.

SUCCESS CHECK-IN EXERCISE

Below, rate yourself on a scale from 0–5 on how accurate the statements are—0 means "not accurate at all," and 5 means "most accurate."

Once you've rated yourself for each statement, total up your scores and then use the Answer Key to determine your next steps.

Success Check-in Statement	Self-Rating
Income stability is more important to me than leaving a large sum to my kids and grandkids.	
If I (and my spouse, if applicable), were to pass a few years into retirement, I would not roll over in my grave from all the potential money that could have gone to the kids and grandkids.	
I want the least amount of market risk possible without compromising my retirement.	
I am in good health and expect to live past 85 years old.	
I am not concerned about future tax rates.	
I am not concerned about future cost of living increases due to inflation.	
I expect my lifestyle and basic living expenses to slowly go down over time as I slow down my activities in retirement.	

WHAT YOUR SCORE REALLY MEANS

SCORE: 0-19
CONSIDER THE LUMP SUM OPTION

Maybe you don't expect to live as long as others. You might be concerned about inflation, taxes, and other future potential problems, or you would prefer to have more control over your destiny. If those things are true, the lump sum option may be in your best interest.

Though this result is not a definitive answer to your choice between a pension and a lump sum, consider what it would look like if you did take the lump sum option and manage your retirement and portfolio based on the strategies explained in this book.

In Part 2 of the book, I'm going to take you through an exercise that will either help you have more confidence in taking the lump sum option or convince you to take the pension as an income stream. There are many factors at play that we'll address head-on.

SCORE: 20+
CONSIDER THE PENSION INCOME OPTION

Maybe you expect to live a long time, or you just can't handle market fluctuations. If your score puts you in the pension income camp, there's a good chance that no matter what this book says, your best bet might be to take the pension income stream.

The art of financial planning comes into play when you consider a person's emotional preference (what they can handle and what they cannot handle on a day-to-day basis). The number one goal for most people is to retire and stay retired. If your answers brought you here, chances are that your pension's income option may be the better option for you. From this point on, read the book with the assumption that you will take the pension as income vs. a lump sum and everything else is intended to support you and your pension. Remember, we are focused on "what is right," and not "who is right." Your friends and colleagues are not you. This is all about you and your retirement success, financially and emotionally.

In Part 2, I'm going to walk you through how to compare your different pension income options. For some, you'll have different pension income start dates. In my opinion, you should retire when you want, not when the pension income says. I'm going to show you how you can set your own retirement date, bridge the income gap, and take the pension income option that is best suited for you.

POPULAR INCOME STRATEGY #4: THE DIVIDEND PORTFOLIO

Let's start with a simple question. If I could offer you a 2% annual dividend, would you take it?

How about a 5% dividend?

7%? 10%? 15%?

How about a 42% annual dividend? Would you take it?

At some point, you've got to wonder how much risk is behind the investment and their ability to pay the dividends.

That is the root of the problem behind a dividend income strategy. For the record, I did see a 42% annual dividend once. It was an extremely high-risk situation. If memory serves me well, that dividend didn't last very long.

According to many financial experts, your basic dividend portfolio should expect around 1%–6% return as annual income, based on its value each year. Those dividends are not guaranteed. If times are tough, dividends can be under pressure. If interest rates go up, like bonds, dividend-paying stocks can find themselves under pressure as well, which could mean they lose value.

Typically, value stocks, which pay dividends, grow at slower rates than balanced or growth stocks. If you were to reinvest the dividends, you may be able to rationalize a more competitive return on investment. However, you can't have your cake and eat it too. You either reinvest the dividend or you spend it. If you spend it, it can become more difficult for your investments to keep up with inflation.

In addition to the pressure of performance and interest rate risk, dividend portfolios are still considered at risk. They can lose value, which puts pressure on the income you need. If you have to sell stocks to keep income coming in, you would be accentuating your losses, ultimately making matters worse.

The idea is well-intended. Buy good stocks that pay good dividends. The stocks may fluctuate, but the dividend should hopefully pay at around the same. The problem is there isn't much of a backup plan. If the dividends stop, what's plan B? Sell some of your stock or mutual fund positions? That compromises your long-term ability to maintain your income.

In addition to the lack of a backup plan, it can be difficult, if not impossible to bridge any gap. If you want to retire at 60 and take your Social Security at 67, your dividend portfolio doesn't care. They will pay what they pay. That means during your potentially healthiest years in retirement, you are on a tighter than necessary budget while you wait for Social Security to kick in. The alternative may be to keep working longer than you need, which may not be how you want to spend your time.

Later in the book, I want to show you how you can pull income from your portfolio, based on your plan, while still being cognizant of your overall account balance. If you want to maintain your principal, no problem. If you want to spend down principal, that's okay too. The goal is to take more control over when, where, and how you get your income so you don't leave it up to the whims of the businesses and hope they pay enough dividends to sustain yourself. There are things we cannot control and there are things we can control. Let's give you as much control as is reasonably possible.

SUCCESS CHECK-IN EXERCISE

Before we proceed with the rest of the book, let's first check in with where you are right now with your retirement preparations. You can still complete the check-in if you are currently retired.

Below, rate yourself on a scale from 0–5 on how accurate the statements are—0 means "not accurate at all," and 5 means "most accurate."

Once you've rated yourself for each statement, total up your scores and then use the Answer Key to determine your next steps.

Success Check-in Statement	Self-Rating
If markets went up, I know where and how I would pull my income without accentuating losses or compromising my portfolio.	
If markets went down, I know where and how I would pull my income without accentuating losses or compromising my portfolio.	
If markets went flat, I know where and how I would pull my income without accentuating losses or compromising my portfolio.	
I am not dependent on any particular business and their ability to make a profit.	
I am aware of the risks behind each of my investments.	
I understand how to bridge my income gap between when I retire and when my income streams start, like Social Security.	
I am deliberately diversified among different investment and product types, indexes, and sectors.	

WHAT YOUR SCORE REALLY MEANS

SCORE: 0-28
IT'S TIME TO MOVE INTO A MORE PROACTIVE POSITION

It's time to stop letting the whims of the market control your life. There are things you cannot control. However, you can control the design of your plan and its supporting strategies.

Your next steps, as you continue to read, must be focused on asking yourself, "How did I end up in a reactive position and what do I need to do to move into a more proactive position?" Read and determine if what this book teaches is right for you. If it is, then take it step-by-step so you can move into a more proactive position.

SCORE: 29-31
JUST A FEW SLIGHT TWEAKS AWAY

You probably have a good grasp of the big picture. However, there still may be some uncertainty in how to handle certain situations. Maybe there are a few questions about a few of your investments and what you would do under certain rare but possible situations.

All investments have benefits and detriments. One of the best things you can do moving forward is to focus on the detriments of your investments so you can use the process and plan to put together your own personal protocol on what to do and when. The overall goal is to be able to keep income coming in, regardless of various conditions. This book can help you do that.

SCORE: 32+
POTENTIALLY MORE POWERFUL PROTOCOLS

You probably have thought about most situations and what you would do. You are probably not concerned about income alone. Perhaps you are more concerned about how to take income while paying less in taxes. Or, how to take income while effectively growing your legacy assets.

As you go through the process, pay attention to the additional strategies that can help you strengthen your efforts in your legacy planning, tax planning, and so on. The purpose of a plan is to provide clarity while allowing multiple strategies to take form and help support your overall goals.

POPULAR INCOME STRATEGY #5: THE RENTAL REAL ESTATE PORTFOLIO

Investment real estate is a different ball game altogether. The asset itself is unlike any of the more common investment options. Those who were fortunate enough to purchase investment real estate during their 20s and 30s most likely enjoyed a significant amount of tax advantages while their renters paid for the equity.

At some point, though, landlords get tired of being landlords. Whether it's the toilets, trash, or dealing with tenants, it's not uncommon for a landlord to want to retire from being a landlord.

There's a problem, though. Let's say you have a large portfolio in investment real estate, and you've depreciated the asset all the way. If you were to sell, the capital gains could take around 30% or more of the total value. That's a tough pill to swallow.

So, what do you do? Many will look for management companies to take care of everything, but that eats into cash flow. Also, there may be some repairs that are needed, but you've been putting them off for one reason or another. Maybe they are too high to rationalize any sort of return on investment. Either way, this is why many landlords feel stuck somewhere between a rock and a hard place.

For those who qualify as accredited investors, you may have a tax-efficient way out. You've probably heard of 1031 exchanges. If not, the quick definition is a 1031 exchange allows you to use the proceeds of the sale of an investment property to purchase another like-kind investment and not pay any capital gains tax.

"But Mike, why would I move my assets from one property to another when I want to be done with properties altogether?"

This is where the second part comes in. Have you heard of Delaware Statutory Trusts? They qualify as like-kind investments for 1031 exchanges. Essentially, they allow you to be a fractional owner of an investment property. You can maintain your cash flow without worrying about tenants, loans, or repairs.

This book does not dive deeper into 1031 exchanges or DSTs, but I want to mention it, so you know there are other options outside of selling everything, paying an arm and a leg in taxes, and then buying a bunch of other investments. Too often, I've heard of financial professionals advising their clients to just sell their properties. I believe it is because they might not know about these strategies.

If you have rental real estate, keep reading. Chances are, you have other assets that can help support the quality of life you want. As you go through the process, you will see places where your rental income or your DST income can play a role in your overall plan.

Like I said, I want to help you. This book is full of surprises and strategies you may not have known existed. So, keep reading.

Let's take a moment and do a quick Success Check-in Exercise. This is only for those who have investment real estate. If you do not have rentals, then skip the assessment and I'll see you in the next chapter.

SUCCESS CHECK-IN EXERCISE

Below, rate yourself on a scale from 0–5 on how accurate the statements are—0 means "not accurate at all," and 5 means "most accurate."

Once you've rated yourself for each statement, total up your scores and then use the Answer Key to determine your next steps.

Success Check-in Statement	Self-Rating
I do not anticipate many major repairs on any of my properties.	
My properties are in good neighborhoods, residentially or commercially, and tend to attract quality tenants.	
When I turn 70 years old, I can see myself finding joy in hiring contractors or taking care of the repairs myself.	
If I were to hire (or if I have already hired) a management company, the return-on-investment cash flow would still be able to support the lifestyle I want.	
My net monthly cash flow, based on current market value of the property, minus taxes, repairs, and all other expenses, is currently competitive.	
I am still enjoying the tax benefits of depreciating my properties each year.	
I do not have any loans or leverage based on the property that could compromise my retirement.	

WHAT YOUR SCORE REALLY MEANS

SCORE: 0-19
CONSIDER SELLING YOUR INVESTMENT REAL ESTATE

If your score brought you here, chances are you are holding on to your properties because you don't want to pay the large sum in taxes. Don't let yourself enter into a difficult situation between you and your properties. There are many ways to sell your properties and maintain your income without paying an arm and a leg in taxes. If this is you, consider taking the total net-of-loan value of your properties and go through the book. I want you to see what your income could potentially be without being beholden to your properties.

Once you finish the book, schedule a call with me or my team so we can discuss your exit strategies. These are investments that you can only access through a licensed financial professional. If I could point you in a self-sufficient direction that didn't require a professional, I would. Schedule a call by going to www.kedrec.com/call

SCORE: 20+
CONSIDER KEEPING YOUR INVESTMENT REAL ESTATE

It is important to have purpose in retirement. For many landlords, there seems to be a significant amount of joy going to Home Depot or Lowe's, getting the needed materials, and fixing normal wear and tear around the house. If your score brought you here, then chances are, you should keep your properties.

Keep reading the book and discover how you can incorporate your rental income stream and other assets in a coordinated effort to help maximize your income and quality of life.

Key Chapter Takeaways

- **4% Rule Takeaway:** The sequence of returns matters. Having too much at risk can put you in a difficult spot, especially if you were to experience a market crash early on in your retirement. Whatever you do, follow the Rule of Income and design your plan in such a way that you never have to pull income from an account that has experienced significant losses.

- **Annuitized Income Takeaway:** Inflation can erode your ability to afford the cost of the lifestyle you want. Deciding what your income is going to be now and potentially 20 to 30 years down the road could be considered a risky decision, especially when you consider the decision is irrevocable and your lifestyle needs could change at any moment.

- **Pension Income Takeaway:** Pensions are rare, yet wonderful options. Just make sure you are aware of the fund that supports the pension. Also, be prepared for whatever taxes may do in the future. If you want more control, that means you may have to take on more risk and responsibility, but that could mean more money to pass to your heirs.

- **Dividend Income Takeaway:** How much risk are you willing to take in order to get the dividend you need in order to sustain your desired quality of life? Dividend income strategies lack a reasonable backup plan. When markets go down, you may be forced to sell positions, which could compromise your retirement for years to come.

- **Rental Income Takeaway:** If you are a tired landlord, take comfort in knowing that there are ways you could potentially sell your properties without paying an arm and a leg in taxes. Though the book won't be discussing them in great detail, you can learn more by going to www.kedrec.com/call and scheduling a call with my team.