



Retirement Income Planning: How the Bucket Strategy Can Help

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Introduction

1. Income Strategies

- “Annuity-Type” Income
- Portfolio Income
- Total Portfolio Return
- 4% Rule

2. Industry Best Practices

3. The Bucket Strategy



Income Strategies

Income Strategies

Key Considerations

- Tax efficiency
- Other sources of income like Social Security and Pensions
- RMDs
- Investment strategy and tolerance for risk
- Timing and logistics of cash flows
- Spending needs and how they vary over time
- Inflation

Income Strategies

Annuities, Pensions, and Social Security

- COLA?
- Will it keep pace with inflation?
- Income stream when you pass?



Income Strategies

Portfolio Income



- Bond income
- Stock dividends
- Capital gains distributions from mutual funds

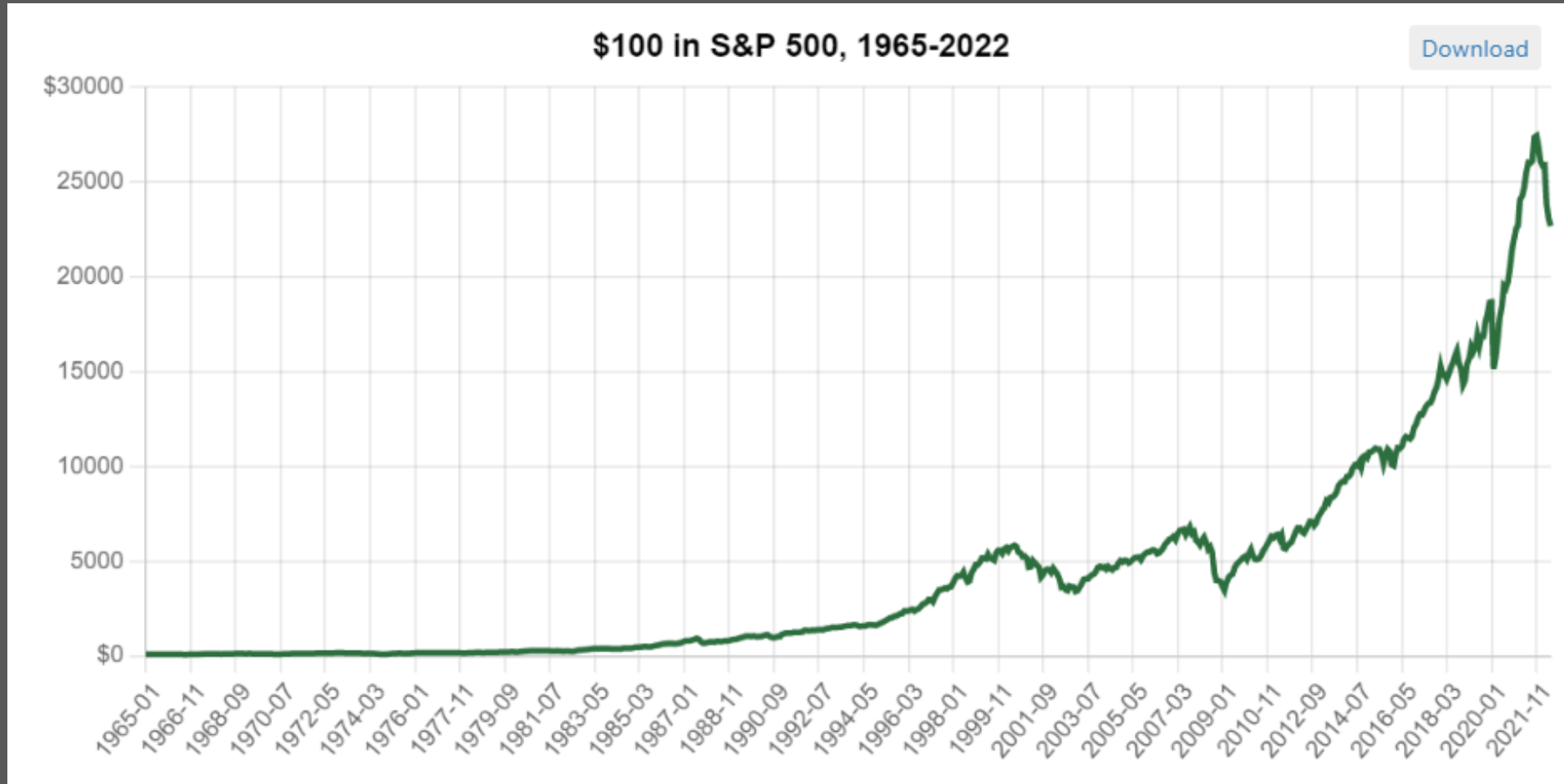
Income Strategies

Total Portfolio Return

- Capital appreciation of assets and generated income
- Half of that return may come from income or capital appreciation



Income Strategies – Total Portfolio Return



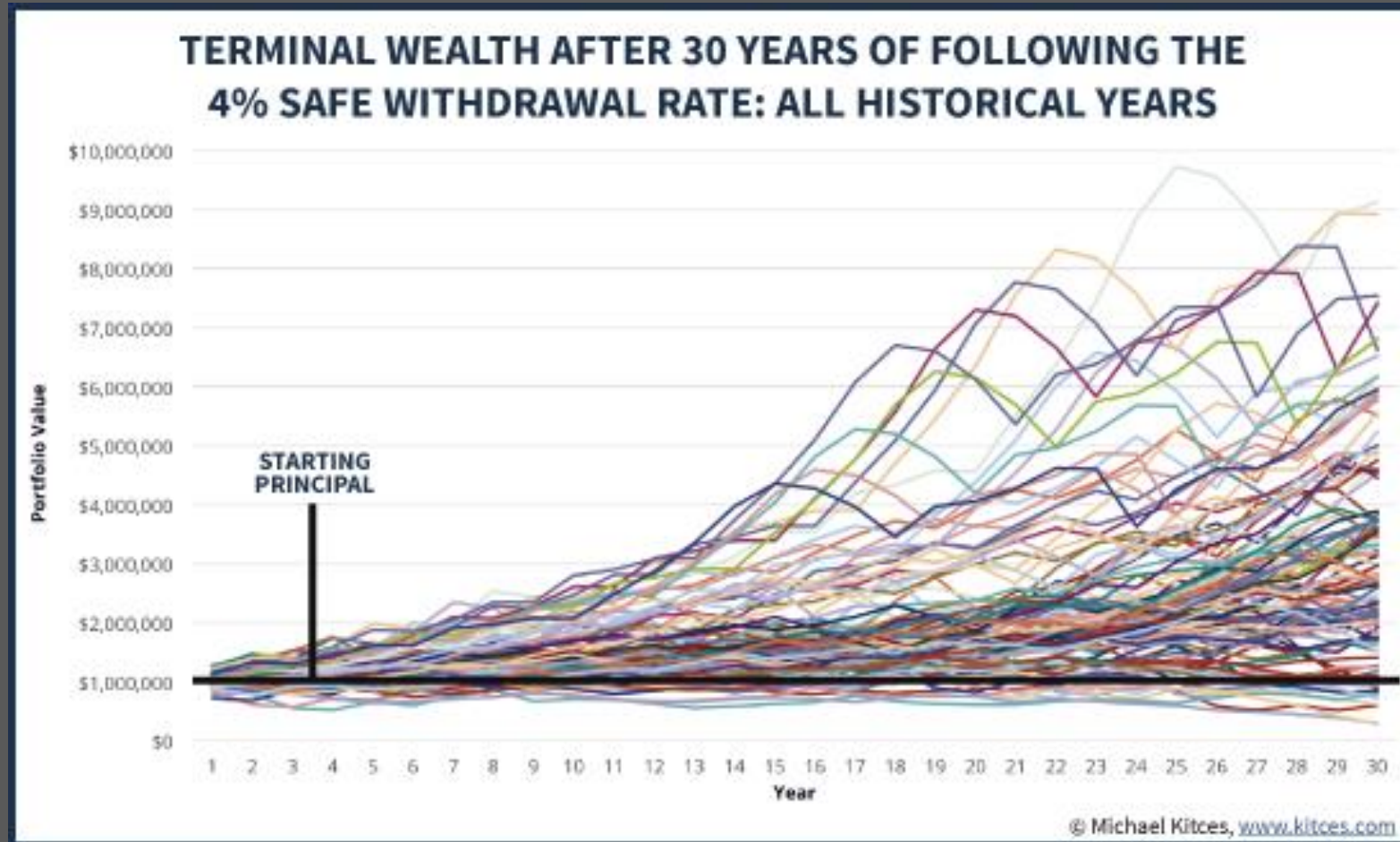
<https://www.officialdata.org/us/stocks/s-p-500/1965#:~:text=This%20investment%20result%20beats%20inflation,%2C%20or%205.69%25%20per%20year>

Income Strategies – 4% Rule

- Only withdraw 4% of retiree's portfolio value the first year and adjust that amount by inflation going forward
- Based on historical stock and bond performance data between 1926 and 1976, Bengen concluded that a 4% withdrawal rate would have supported a balanced portfolio for 33 years



Income Strategies – 4% Rule



<https://www.kitces.com/blog/url-upside-potential-sequence-of-return-risk-in-retirement-median-final-wealth>

Industry Best Practice Approach To Retirement Income Planning

Retirement Income Planning “Best Practice”

Combination of:

- Total Portfolio Return
- The 4% Rule
- Wealth Management Bucket Strategy



Retirement Income Planning

The Total Portfolio Return Strategy provides flexibility and potential tax savings through “Asset Location”

TAX WRAPPER	TAXABLE	TAX-DEFERRED	TAX-DEFERRED AND TAX-FREE
Account Type:	Bank Accounts Brokerage Accounts	403b, 401k, Traditional Retirement Accounts, Simple & SEP IRAs	Roth Retirement Accounts, 529 Plans, Health Savings Accounts (HSAs), & Life Insurance
Deductibility of Contributions:	Not Deductible	May be Deductible	Usually Not Deductible (HSAs are deductible)
Mandatory Withdrawals:	No	Yes	No
Current Year Taxation: <i>Interest Income</i>	Yes	No	No
<i>Dividends</i>	Yes	No	No
<i>Realized Capital Gains</i>	Yes	No	No
<i>Withdrawals</i>	No	Yes. Withdrawals taxed at ordinary income tax rates.	No. Withdrawals are typically tax free.
Optimal Tax Location Types:	Tax-efficient Types: <ul style="list-style-type: none"> • Tax-exempt Investments • Low Turnover Growth Investments 	Tax-inefficient Types: <ul style="list-style-type: none"> • Taxable Investments • Alternative Investments • High Turnover Investments 	Tax-inefficient Types: <ul style="list-style-type: none"> • Alternative Investments • High Turnover Investments
Optimal Tax Location Examples:	Tax-efficient Examples: <ul style="list-style-type: none"> • Stocks • Stock Index Funds • Tax free Municipal Bonds 	Tax-inefficient Examples: <ul style="list-style-type: none"> • Foreign Stocks • Taxable Municipal Bonds • Taxable Corporate Bonds 	Tax-inefficient Types: <ul style="list-style-type: none"> • REITS and REITS Index Funds • Hedged Equity Funds • Managed Futures Funds

Retirement Income Planning

Total Portfolio Return

- Tax efficiency as a key consideration
- Many options allow tax benefit optimization



Retirement Income Planning




Creating a paycheck from your portfolio

- Distribution is similar to a paycheck
- Advisors monitor cash levels



Retirement Income Planning

The 4% Rule has led to software that can simulate market returns over time

Goals	Estimated % of Goals Funded		
	Current Scenario	\$100k/yr spending	\$120k/yr spending
Need			
10 Living Expense	Average Return	Average Return	Average Return
	100%	100%	100%
Safety Margin (Value at End of Plan)			
Current Dollars	\$3,234,906	\$2,803,556	\$1,940,857
Future Dollars	\$6,773,174	\$5,870,024	\$4,063,723
Monte Carlo Results	Likelihood of Funding All Goals		
<div style="display: flex; align-items: center;"> <div style="width: 10px; height: 10px; background-color: green; margin-right: 5px;"></div> Your Confidence Zone 83% - 98% Edit </div>	 <p>99% Probability of Success Above Confidence Zone</p>	 <p>99% Probability of Success Above Confidence Zone</p>	 <p>94% Probability of Success In Confidence Zone</p>
Total Spending ?	\$2,340,000	\$2,600,000	\$3,120,000



https://www.moneyguidepro.com/ifa/Home/MoneyGuidePro?gclid=CjwKCAjwyaWZBhBGEiwACslQo0Ha3iGvvZTnciFv efB21E26FWTN0dE5mYD0PtTW0MIK0_RJwL1mxBoC79YQAvD_BwE#product-pro

How the Bucket Strategy Can Help

	BUCKET 1	BUCKET 2	BUCKET 3	BUCKET 4
	CAPITAL PRESERVATION	INCOME PRODUCING	GROWTH AND INCOME	GROWTH
	DAILY LIQUID SHORT-TERM CASH	DAILY LIQUID SHORT-TERM FIXED INCOME	DAILY LIQUID LONG-TERM INVESTMENT PORTFOLIO	ILLIQUID & HIGHER RISK ASPIRATIONAL ASSETS
ESTIMATED TIME IN YEARS	0 to 2 Years	2 to 5 Years	5 to 10 Years	10 Years Plus
TYPICAL HOLDINGS	Bank savings, checking accounts, money market funds	Short-term CD and Bonds	Professionally managed, diversified portfolio of funds	Private equity, highly concentrated stock positions, real estate, etc.
PURPOSE OF THE MONEY	Current spending needs	Potential spending needs	Future financial obligations	Opportunity for significant growth
GOAL DESCRIPTION	Safe, daily liquid spending money	Preserve my wealth "rainy day fund"	Preserve and grow my wealth	Take speculative risks to grow my wealth
LIQUIDITY DESCRIPTION	Liquid: "I may need this money to buy something in the next few months."	Liquid: "I may need this money to buy something in the next few years."	Liquid: "I will need this money to fund future financial obligations."	Illiquid: "I do not need this money to fund future financial obligations."
TIME HORIZON	Today	Short-term	Long-term	Long-term

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How the Bucket Strategy Can Help

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How the Bucket Strategy Can Help



- Ross Perot was a successful technology entrepreneur decades before his 1992 presidential election campaign
- Founded two companies that were purchased for billions
 - Electronic Data Systems founded in 1962
 - Perot Systems founded in 1988 later purchased by Dell for \$3.9 billion

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How the Bucket Strategy Can Help

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How the Bucket Strategy Can Help

Bucket 2 Investment Portfolio

Goals for the Bucket 2 Portfolio

- Daily liquidity
- Investment grade or above
- Short duration
- Taxable and tax-exempt bonds

Summary

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2. Industry Best Practices

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Q & A



Thank You



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