THE BUCKET STRATEGY

FOR PROTECTING YOUR RETIREMENT FROM RECESSION

HOW IT WORKS AND WHAT IT MEANS FOR YOUR RETIREMENT

DON'T JUST HAVE A PORTFOLIO, HAVE A PLAN

We believe a retirement strategy is about affording the lifestyle you want in your later years. For most of your life, you have likely worked hard to save for your retirement as best you could. But now, it may be about turning those savings into an actionable plan that helps you afford the lifestyle you planned for as safely and efficiently as possible. You're likely faced with these questions: What do you want your retirement to look like, and how much income do you need each year to make it happen?

Although today's retirees may have benefited from a historic bull market run in the 2010s, they also face new challenges that previous generations of retirees may not have had to face, such as the lack of a pension, a diminishing social security fund, market volatility, inflation, rising healthcare costs, and the possibility of outliving their savings.

START WITH A FINANCIAL ADVISOR

Having a portfolio is different from having a plan – you've saved up and have contributed to your retirement plans and overall portfolio. Now you need an income and wealth preservation plan for them. But you might be wondering, "Where do I start?" We know you're likely not a financial expert, and the good news is, you don't have to be. A financial advisor has the expertise you need to see how your retirement savings and finances can help you meet your retirement lifestyle goals, and it all begins with education.

In this guide, you'll learn how a diversified portfolio - not just across holdings but across strategies, timelines, and retirement accounts – can help secure your income and thrive through changing market conditions. You'll see what assets and investments are commonly correlated with each, and how your bucket strategy is built to track your risk tolerance and financial goals over your lifetime.

There are three main buckets to be familiar with: The Risk Bucket, the Protected Bucket, and the Spend Bucket.

THE SUBJECT TO MARKET "RISK" BUCKET

The Risk Bucket consists of investments such as stocks, bonds, real estate, mutual funds, Exchange Traded Funds (ETFs), variable annuities, commodities, and other asset classes that are subject to market risk.

- This bucket is meant to utilize however much you are comfortable allocating to long-term strategies that have the potential to grow in value.
- It is meant for assets that may gain in value as opposed to providing you with direct, steady income.
- These assets are subject to market risk and could lose value.
- Continuing to be invested in the market can help protect against inflation and longevity risk by continuing the growth of your wealth.

THE “PROTECTED” BUCKET

The Protected Bucket, commonly referred to as the Income Bucket, may consist of Certificate Deposits (CDs), fixed annuities, and other assets not subject to market risk.

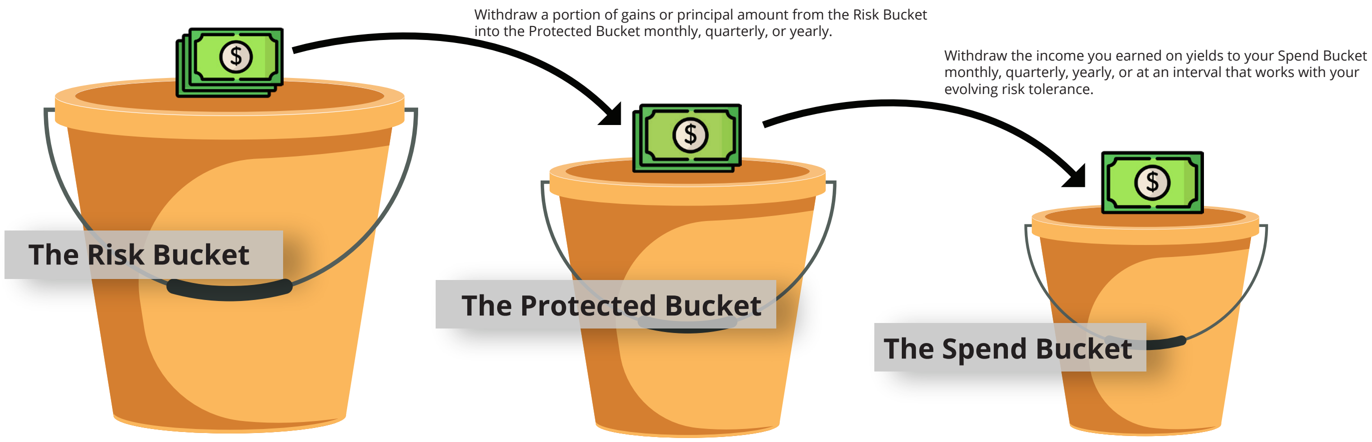
- This bucket commonly holds, assets not subject to market risk, such as long-term bonds, fixed annuities, or other stable assets that may provide an income yield.
- The goal of this bucket is to utilize your savings to help provide you with protection of principal and a supplemental income yield as opposed to long-term growth.
- Although the income bucket may not rise a lot in value, it will likely be invested in assets that tend to be more stable and return an interest or dividend to you periodically.
- Assets in this bucket have varying levels of protection. For example, bank products are FDIC-insured up to applicable limits, whereas annuity guarantees are backed by the financial strength of the issuing company.
- Retirement is about going from the accumulation phase to the distribution phase, and a protected bucket can help you lock in your gains from the risk bucket and provide supplemental income through dividends or interest payments.

THE “SPEND” BUCKET

The Spend Bucket usually consists of savings accounts, short-duration CDs, and short-term bonds**.**

- The goal of this bucket is to provide you with cash on hand to pay for your basic needs.
- These assets and accounts are highly risk-averse, are liquid, and typically pay low-interest rates and yields.
- These accounts usually hold cash and may include short-term CDs and savings accounts.

HOW DOES THE BUCKET STRATEGY WORK?



Usually constitutes a greater share of your portfolio when:

- You are younger and have more time to potentially recover from a market downturn.
- You are less likely to rely on your retirement savings for income.

Offers growth potential for your retirement savings.

Usually represents a greater share of your portfolio when:

- Your retirement savings have less time to potentially recover from a market downturn.
- You rely on them for your income, such as when you are nearing or in retirement.

Provides downside risk protection and supplemental income through dividend yields and interest payments.

The Spend Bucket provides the cash you need to pay for your costs of living.

- You can filter your Protected Bucket income or principal amount to your Spending Bucket at an interval that works with your evolving risk tolerance to pay for your costs of living and necessary expenses
- If you are left with extra income, it might mean you are taking too much income which can be diminished by income taxes.

THE TAKEAWAY

This strategy is designed to help boost your retirement saving's longevity and income stability

When done according to your needs, it can also help to make sure you're not over-exposed to risk and your income-generating assets aren't depleted over time.

This strategy combines the potential of high-growth and the stability of risk-averse assets in a way that is tailored to your own needs and goals.

The Bucket Strategy can be particularly useful in uncertain times.

KEYS TO THE BUCKET STRATEGY

Time Horizons and the Bucket Strategy

- Time horizons are a key facet of developing a Bucket Strategy
- Based on your time horizon for retirement, you can develop a risk tolerance and estimate what rate you expect it to grow in value conservatively as you grow closer to retirement.
- Based on this rate, the Risk Bucket seeks to grow your assets while you funnel that growth to income generation over time.
- This builds your Protected Bucket at the same rate your risk tolerance is growing to prioritize protection.

Roth IRAs and the Bucket Strategy

- Roth IRAs are typically structured for lower-income, younger people. So, many use their Roth IRA for their Risk Bucket starting out
- Because of the Roth IRA's tax-free withdrawal feature, reallocating a portion of your Roth to the Protected Bucket assets can help provide income optimization.
- However, if you surpass the income limits of a Roth when your career advances or earnings increase, a Traditional IRA can work too.

Annuities and the Bucket Strategy

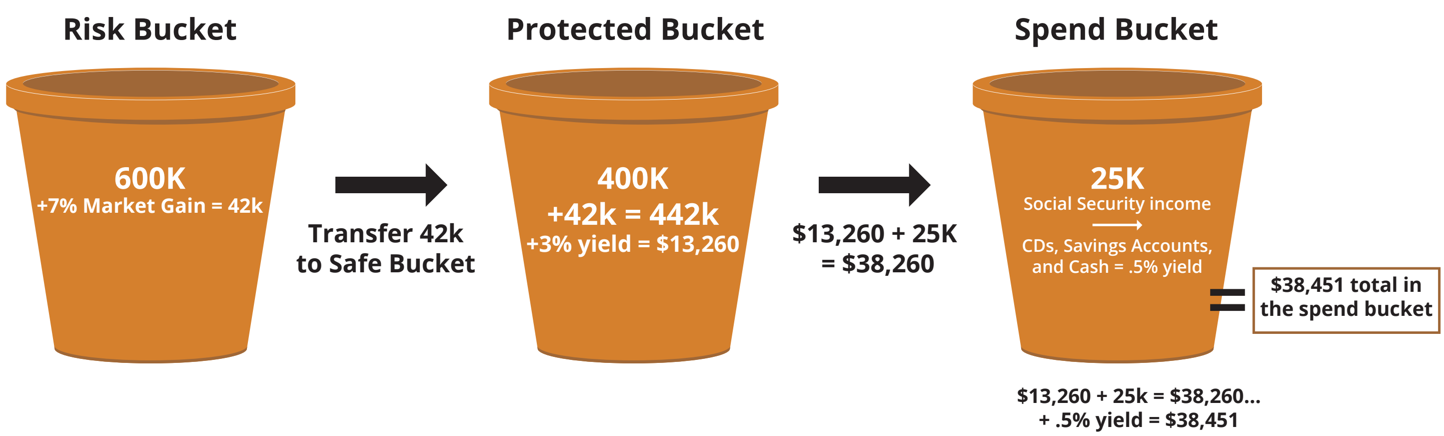
- Annuities can be customizable, making them a potential component to either the Risk or the Protected Buckets.
- Fixed annuities can provide steady income payments, making it a possible option for your Protected Bucket.
- Variable annuities can provide market growth potential for your Risk Bucket.
- Annuities, which may be guaranteed or subject to market risk depending on the type of annuity purchased, may not be considered a liquid asset as it typically can't be withdrawn for income before age 59-1/2, and may involve surrender penalties.

1 https://www.investopedia.com/terms/r/rothira.asp

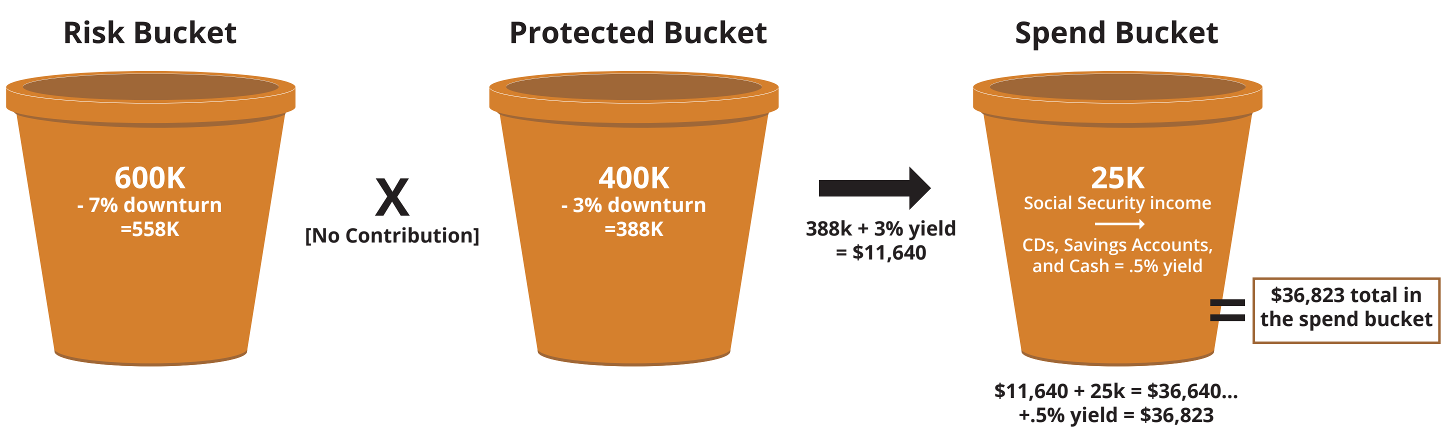
EXAMPLE

Let's look at how the Bucket Strategy could work for a retiree. Let's say you have $1 million saved for retirement. How would you turn that $1 million into a bucket strategy?

**The following example of a Bucket Strategy depicts a hypothetical of how a Bucket Strategy could work over different stages of compounding by only transferring gains from each Bucket as opposed to a portion of the principal amount. A Bucket Strategy can still work when principal amounts are reallocated as well.*



What if there's a market downturn?



The numbers in the infographic shown above only represent a hypothetical example and do not represent a guarantee of any specific investment outcome. They don't reflect any specific investment or products and rates of return are not guaranteed. Figures do not reflect the deduction of fees or taxes.

A downturn may not change your income or wealth if you only picked one bucket or mistimed the switch of your strategy, even for someone with a relatively high risk tolerance.

When a downturn happens, you may afford to discontinue contributions to the Protected Bucket or Spend Bucket because you may have already allocated to it based on your current risk tolerance.

Because your risk tolerance is calculated based on what you're willing to risk to a potential downturn, you can typically afford to leave whatever is in your Risk Bucket for the duration of the downturn to help benefit from a potential market recovery.

THE BUCKET STRATEGY IS DYNAMIC

The Bucket Strategy can help soften the blow of a downturn, due to its risk-tolerance focused approach while leaving you dynamic options to help maintain income and growth potential. If the retiree in the example held all his savings, he might have seen gains in bull-market years. On the other hand, if the retiree held all his savings in the Protected or Spend Bucket, they could see their portfolio erode over time with nothing to replenish it.

There are many ways to do a Bucket Strategy well, and the great part about it is its flexibility in how you can use it or change it over time as market conditions change. Over time, you may be slowly, periodically shifting your strategy towards protection and income as you near your retirement age. There's no single time you switch strategies altogether, which helps mitigate the risk of mistiming your switch during a market downturn or having your savings erode over time.

Your unique financial situation, including but not limited to your current assets, time horizon, income, wealth goals, and risk tolerance all play a factor in how it could work for you. That's why talking to a financial advisor is the first step to implementing a Bucket Strategy that works for you.

THAT'S THE GENERAL PLAN - HOW DOES IT APPLY TO YOU?

While this general framework is helpful, the actual amounts of money and specific investments that will make up each bucket will vary from person to person. It all depends on your desired retirement lifestyle and your risk tolerance, which are unique to you.

There is no one-size-fits-all solution. That's why we can work with you to create a retirement income plan based on your specific situation.

Sources

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