Fill Your Bucket:
Retirement Spending Strategies

Submitted by Steve Giacobbe, CFA, CFP®, Co-Founder and Managing Partner at Accredited Wealth Management

Having a financially secure retirement depends not only on accumulating sufficient assets, but also on having a spending strategy. As investors near retirement, their number one concern usually becomes whether or not they will have enough assets to last their lifetime.

Many different strategies can be used to generate retirement income. The old rule of thumb, 4% withdrawals, was simple to follow, but it has its shortcomings. Our experience and study of leading research suggests that there are a couple of retirement spending strategies that stand out for their effectiveness. We refer to these strategies as *Dynamic Spending* and the *Bucket Approach*.

»DYNAMIC SPENDING

To alleviate the drawbacks of systematic withdrawals, retirees can use a Dynamic Spending strategy. *This approach combines a systematic withdrawal, starting with a sustainable percentage of the portfolio and making adjustments for market fluctuations.* The adjustments are implemented by using a ceiling and floor calculation that is applied to the prior year's real spending. For example, if markets perform well, the spending level may be increased the following year by 5%, or down by 2.5% if they perform poorly.

These adjustments allow investors to benefit from good markets and increase spending, yet protect from overspending when market performance is poor. Effectively, you are giving yourself a little raise in good return years but reinvesting any excess dollars to provide a cushion in the down return years. This strategy increases the odds your portfolio will last for your lifetime.

Pros: Income may fluctuate in the short term, however, the changes are likely to be small and less sensitive to market fluctuations than a systematic approach.

Cons: The calculations require a few steps and may be more complicated than a systematic approach; income may decline on an inflation-adjusted basis if not managed properly.

»THE BUCKET APPROACH

Another strategy that we use at AWM to effectively manage your spending is the Bucket Approach. *A bucket strategy simply segments your investment portfolio into different "buckets" based on when you expect to need your money.* The key premise of bucketing is that by maintaining a bucket of conservative assets in cash and short-term bonds at all times — consisting of one to two years' worth of living expenses — *a retiree can maintain a stable standard of living during periods of market volatility.*

Most bucket strategies segment investment portfolios into three buckets based on risk and time. The first holds conservative cash and cash-like investments for short-term needs. The second bucket holds intermediate assets that are income-generating (bonds and some equity-like investments), which are subject to greater but still limited volatility. The third bucket is for long-term growth assets that are more volatile but offer the greatest upside.

Key reasons why the bucket strategy has become popular for managing retirement income are its simplicity and the comfort it provides to retirees. The comfort comes from knowing they have a strategy for dealing with market volatility and maintaining their standard of living in retirement.

Pros: It is easy to understand and establish, provides a consistent strategy for how to withdraw assets from your portfolio, and it rides out periods of market volatility.

Cons: Maintaining a bucket strategy can be more time-consuming and complicated than it appears; if not managed properly it can leave your portfolio out of proper balance.

No strategy is the perfect choice for all retirees. A good financial advisor will help you with the transition into retirement, explaining the potential risks and designing the right retirement income and spending strategy that fits your situation.

Through our experience with clients, we know that having an effective spending strategy can improve peace of mind and outcomes in retirement. If you would like to discuss how to best prepare and manage your assets in retirement, give us a call to schedule a complimentary meeting.

Written by: Steve Giacobbe, CFA, CFP®, Co-Founder and Managing Partner at Accredited Wealth Management. Call if you have questions or want to discuss how to implement strategies to live your best retirement.