<u>The Bucket Approach to Retirement Income</u>

A Simple and Strategic Way to Structure Retirement Cash Flow

Creating a dependable income stream in retirement is one of the most important challenges investors face. A concept I often share with clients is the **"bucket approach"** to retirement income – a simple and easy-to-understand way to help structure your accounts for short-term stability and long-term growth.

This method divides your investments into **three buckets,** each designed to serve a specific purpose in your retirement plan. Let's break down how it works.

Bucket 1: Immediate Income – Your Safety Net

This bucket typically consists of **bank or savings accounts** and should hold approximately **two years' worth of income needs.**

- Example: If you need $50,000/year beyond Social Security or pension, you'd keep **$100,000** in this bucket.
- Funds here should be **safe, liquid, and secure** – not exposed to market risk.
- The goal is to meet short-term needs **without worrying about market fluctuations.**

Bucket 2: Near-Term Income – Stable, Low-Risk Growth

This second bucket holds **high-quality bond funds,** ideally with short-to intermediate-term durations. These help provide modest growth with **lower interest rate risk** and more stability than stocks.

- Example: A retiree might keep **three years' worth of income ($150,000)** here.
- While these funds may fluctuate, they typically offer higher returns than savings again.
- The goal is to **replenish Bucket 1** as needed, while maintaining low-to-moderate volatility.

Bucket 3: Long-Term Income – For the years Ahead

This third bucket contains your **growth investments,** often made up of **dividend-paying stocks** and diversified mutual funds or ETFs.

- In our example, the retiree invests **$750,000** in this bucket, with **$500,000 allocated to equities** and **$250,000 to bond funds** to maintain a 50/50 portfolio balance.
- The **dividends and interest earned** from these holdings flow back into bucket 1 to cover immediate income needs.
- These investments are subject to market risk but are designed for long-term growth – helping retirees **outpace inflation** over time.

Why the Bucket Approach Works

One of the most powerful benefits of this strategy is **psychological.** Knowing that the next five years of income are relatively secure helps retirees avoid panic when markets are down.

- It reduces the need to sell investments during downturns
- Dividends and interest help **replenish short-term needs**
- You maintain a structured, **balanced portfolio** tailored to your risk tolerance and objectives

This approach provides **flexibility, peace of mind,** and a **strategy for adapting** to changing markets and income needs.

A Hypothetical Example

Assume a retiree has $1 million at retirement and needs $50,000 annually (adjusted for inflation) in addition to Social Security.

Bucket	Allocation	Purpose
Bucket 1	$100,000	2 years of cash in savings
Bucket 2	$150,000	Short-intermediate-term bond funds (3 more years of income)
Bucket 3	$750,000	Long-term growth (stocks & bonds)

The structure supports a **5% withdrawal rate,** with income continually flowing back into Bucket 1 from bond interest and stock dividends.

Final Thoughts

Today's retirees are living longer and facing rising living costs. The **bucket approach** can help address both challenges by combining stability and growth.

By maintaining a **disciplined, diversified allocation,** and drawing from the right accounts at the right time, retirees can reduce risk, manage income, and maintain financial confidence through all market cycles.

Enjoy your buckets of income!

Disclosures & Notes:
1) Asset Allocation and diversification are risk management techniques, but they do not guarantee profit or prevent loss in a declining market.
2) Hypothetical example assumes all funds are held in taxable accounts and withdrawals begin at retirement age.
3) Bond fund quality is based on third-party independent credit ratings.
4) Portfolio allocations should always be customized based on personal risk tolerance and financial goals.

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