

# Should You Consider Using the Bucket Strategy in Retirement?

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 Retirement Daily Guest Contributor  
Aug 27, 2020

## By Anthony Bartlett

Everyone dreams of a comfortable retirement and looks forward to enjoying all those things they've imagined. Unfortunately, for many, it is a dream that will never come true. With increased longevity, more people are living longer, and running out of money is becoming all too common. Having a stable, consistent income stream is vitally important to a secure retirement.

Time has a way of moving faster as we get older. Retirement can creep up on a person as the years fly by. When they're younger, it's "at some point in the future;" when they're middle-aged, it's "getting close;" when they're a few years away from retiring, "it's a reality."

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retirement planning: accumulating, preserving, and distributing assets. In order to effect a successful retirement, all of the phases must be utilized well.

Setting goals, making and keeping to a strategic plan, periodically evaluating risk, and properly allocating assets are the basics of accumulation. That wealth is the base on which a comfortable and enjoyable retirement is built.

Many people focus so intently on wealth accumulation that they give little thought to preserving that wealth. Wealth preservation is maintaining assets and income. The four steps in wealth preservation are periodically re-evaluating risk, diversifying investments, insuring catastrophic losses, and establishing an emergency fund.

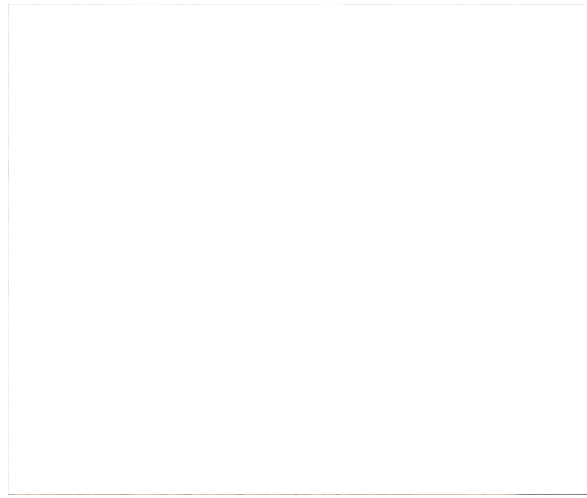
Distributing wealth in the most efficient way so it lasts the 25-30 years of a typical retirement is the goal. The distribution phase must be carefully planned and implemented correctly to ensure a comfortable and prosperous retirement. For many people, retirement income is comprised of Social Security, some savings, and perhaps an IRA or pension.

The conventional planning strategy is for systematic withdrawals of a set percentage to be taken each year on a pro-rata basis with the hope of the money lasting for the rest of their life however long that may be. There is no plan in place; it is a take-and-hope seat-of-the-pants method that can result in gloomy, worried-filled retirement years. The bucket distribution strategy is less risky.

To implement the income "floor," these sources of guaranteed income like Social Security and

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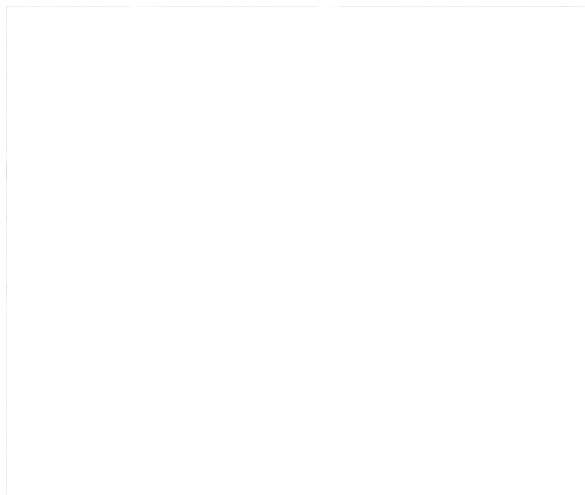


Higher risk is associated with the possibility of a higher return. Conversely, lower risk equates to a lower return. This trade-off must be considered when making investment decisions. In an ideal world, the exact income need is matched with the exact risk. In the real world, it is more like where science meets art. There is a need to maintain flexibility, to be able to pivot when necessary, and to look down the road and see around the corner.

The term ROI means different things at different times. During the accumulation phases, it means return on investment. In the distribution phase, it means reliability of income. Reliability of income is one of the most important considerations in retirement, if not the most important. Without enough reliable income, retirees are forced to take a part-time job, cut living expenses, or both, and potentially take greater investment risk to make up the needed difference.

The bucket distribution strategy is a time-based segmentation approach that addresses concerns about outliving money and poor market performance. One of the advantages of this approach is that it provides both safety and a sense of control. Three essential factors that must be considered in planning a distribution strategy are TNT—timeframe, need and risk tolerance. Bucket strategy gives the ability to match the timeframe of income needs to investments and risk tolerance during retirement in the short term, mid-term, and long term. The buckets are intended to get a person through each stage of retirement.





Another significant benefit of bucket planning is protecting from sequence of return risk, which is withdrawing money when an account balance is low due to a drop in market performance. Losing money in the early years of retirement can be difficult to recover from and may handicap an entire retirement. While it may not be catastrophic, it can be calamitous. As the market goes

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... account there is a host of good that can come from each an event...

There are five buckets, each one lasting for five years, which are designed to cover the length of a typical retirement. Think of them in terms of now, soon, and later. Deciding which accounts to tap and in what order is crucially important and takes planning, monitoring, and periodic adjustments.

Bucket 1: This bucket is made up of liquid, low risk to no risk assets with little, if any, exposure to the financial markets. This bucket will cover daily living expenses for such things as food, gas, home-related expenses and repairs, unanticipated health care costs, and an emergency fund, for example, for the first five years.

Buckets 2 and 3: These buckets are invested for conservative growth to hedge against inflation. They provide income and stability. Bucket 2 has a slightly higher target return rate than Bucket 1 and Bucket 3 has a slightly higher target return that Bucket 2.

The investment strategy for buckets 4 and 5 have more equity exposure then buckets 2 and 3. This is because we have a longer time horizon and higher growth rate because these buckets won't be touched until years 20, 25 and possibly 30 years out.

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There is a possible sixth bucket. Any assets over the amount required to fund the retirement goal can be allocated to a legacy bucket. For example, if a couple needs \$500,000 to meet their retirement goal, but have accumulated \$750,000, the extra \$250,000 can go into that bucket. This can also be utilized for longevity if retirement goes beyond 30 years.

Accumulating and preserving wealth is a great achievement. However, without a comprehensive and coordinated plan and process to utilize what's been gained, retirement will not be as secure and enjoyable as possible. Bucket planning investment strategies, Social Security claiming strategies, and customized future healthcare costs must be coordinated to achieve the desired results for a secure, confident, and comfortable retirement.

A general practitioner financial planner is not a retirement distribution specialist. Working with a distribution expert who can assist a client in navigating the complexities of a successful distribution strategy is the only way to ensure a financially sound and secure retirement. It's analogous to brain surgery; you'd call a brain surgeon, not a general practitioner. After all, you get only one shot at having a successful retirement.

## About the author: Anthony Bartlett

Anthony Bartlett, ChFC,CASL, AEP, RICP, is the registered principal and CEO of Bartlett Wealth Management where he specializes in wealth management. He has been advising clients on retirement distribution strategies since 1991. He served as a National Board member for the Society of Financial Services Professionals and then continued thru the executive roles of National Secretary, President Elect, President, and completed his role of Immediate Past President in 2018.

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