NEED TO KNOW: INVESTING AFTER RETIREMENT

THE BUCKET PLAN

What is the bucket plan?

- The bucket or segmentation strategies divide assets into different “buckets,” depending on the time remaining until withdrawal and amount of risk. The withdrawal rate the bucket plan is generally set on 4 percent of retirement assets.

How does it work?

- The bucket plan splits your savings into three pieces which will be used during the early, middle and late stages of retirement.
- First, figure out what your monthly expenses and what source of income those are covered by. Then, calculate the gap between income and expenses that need to be covered by savings/other assets.
- For example, if a couple needs $6,000 a month to meet day-to-day expenses and they receive $4,000 a month from Social Security, they'd need $2,000 a month to cover the gap.
- The bucket approach would say to put anywhere between $48,000 and $72,000 into short-term reserves: bank accounts (little interest), money market funds (little interest) and Certificates of Deposit (little interest).
- This money will return little, if anything but will be able to cover expenses especially if stocks tank during the period of those cash holdings.
- If stocks do tank, once they return back to normal holdings, unloading stocks and depositing the money from them into the cash bucket will pay for day-to-day expenses.
- Buckets can be re-balanced at any time to reflect changes in income requirements or risk tolerance.

Is the bucket plan for me?

- Evaluate the sources of your retirement income, the flexibility of your budget and your ability to tolerate risk on both a practical and psychological basis.
- Either plan will cover your day-to-day expenses, just in different ways. Before committing to either plan, analyze the following areas first:
  - Look at your entire financial situation
  - Maintain an emergency fund
  - Pay off credit card debt
  - Evaluate your comfort zone
  - Mix types of investment
  - Re-balance your portfolio periodically
  - Avoid situations that could lead to fraud
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THE SYSTEMATIC WITHDRAWAL PLAN

What is the systematic withdrawal plan?
- The systematic withdrawal plan invests in a broad spectrum of asset classes – a grouping of investments that have similar characteristics and are subject to the same laws and regulations. Asset classes can be equities (stocks), fixed income (bonds), cash and cash equivalents, real estate, commodities, futures and other financial derivatives.
- This plan treats all assets alike within a portfolio and subtracts the required income from the total.
- There’s only a single asset allocation target to maintain and there are predictable 4 percent to 5 percent annual withdrawals.

How does it work?
- Investment in a broad spectrum of asset classes and withdraw a proportionate amount each month to supplement your income.
- Over time, the systematic withdrawal plan will produce an average rate of return that supplies the needed income and a hedge against inflation during retirement.
- The basic fundamentals of a systematic withdrawal plan suggest that the rate of investment growth has to exceed the money paid out.
- The issue with this plan is the average rate of return assumption – if you have to make unexpected withdrawals, the whole plan can be derailed and it can take years to catch up, time that retirees may not have.
- This plan also has more of a psychological bearing on people who prescribe to them – when the market experiences a downturn or correction, they may see the value of their retirement account trend lower and become worried, which can lead to risk-aversion and poor decision making.

Is the systematic withdrawal plan for me?
- If you’re not anticipating any large expenses you wouldn’t be able to cover without withdrawing stocks, this plan may be right for you.
- If you are worried about the rate of return or have a higher withdrawal rate than 4 percent, this may not be right for you.