Episode #254: Is the Bucket Withdrawal Strategy Right for You?

Video Transcription

All right, welcome back. My name is Kyle Tomko and at the end of this episode, we're going to help determine if the bucket withdrawal retirement strategy is right for you.

But first, quick story; my parents, Mom and Dad, just retired and relocated down to Florida in Longboat Key. Great place, by the way. They're living their best life, meeting new people, having happy hours, and having dinner every night.

What can go wrong, right? And then all of a sudden... The stock market begins to crash. You know, that level of excitement now slowly turns into some levels of concern, of fear.

But fortunately for them, they had a large enough cash cushion to maintain that same lifestyle in retirement during times of market turmoil. In other words, they didn't have to withdraw or pull from some of those depreciated retirement assets, because if they did, that would have put tremendous stress on the longevity of their overall retirement assets.

So the question we should be asking is, not when the next market crash is, but how many times we're going to experience a market crash during our retirement? And this bucket withdrawal strategy can eliminate that sequence of return risk that we all face today.

Now, I'll make sure I mention this upfront, it's so important to work with an advisor on the implementation of this strategy. The last thing you want to do is step up to a higher tax bracket, which can increase the tax on those Social Security benefits and even increase the cost of your premium with Medicare.

Let's now look on over to the board here and talk through this three-step process to these three buckets. First, maintain liquidity. I would even say before that we need to identify what your timelines are, what goals you have, and what are those income needs.

Then, secondly, allocate those assets accordingly amongst these three buckets. But the first is to secure your lifestyle. Now, you'll notice on the top right-hand side of this screen, I have a million-dollar net worth with a $50,000 retirement income goal.

What we're going to do is set aside two years of your living expenses inside this first bucket. We're going to build up your cash reserves. This money is going to be liquid. This money is going to account for any medical or travel emergencies.

This is going to be accessible to you, as I mentioned. There's no risk whatsoever. And best of yet, there are no fees that are being charged on these dollars amount. So, the first thing is securing your lifestyle. We must fill that first bucket here to cover those lifestyle needs in retirement.

Now, as we move on over here, and move to the right on this risk spectrum, we're going to look at the second bucket. Now, each bucket has its own sleeve, right? Has its own purpose.

The second one is to really generate protected income. Meaning, generate income that's not going to fluctuate due to market volatility. So we're taking more of a preservation approach. Below market risk, anywhere from that 3% to 5% percent range.

But what's going to have income sources that are going to be inflation-adjusted? So some instruments that fall inside fixed income are bonds, bond funds, annuities from insurance companies, a letter, a MIGA approach, or income writers with fixed index annuities out there today.

This is going to, again, accelerate, and enhance as we deplete bucket one and refill that on the back end as we cover those expenses, years three through six.

Back to our example of million-dollar net worth, we're segregating of about $400,000 of that $900,000 that's left over, and that's going to be positioned here to focus on generating income.

Now, you'll notice I didn't mention Social Security which falls into this. What we don't want to do is take Social Security early. We want to be able to maximize those benefits, so delaying that to age 70 is so important, and in the meantime, fill that gap with withdrawals from these types of buckets.

Let's move on over to that third bucket, our third sleeve in our overall portfolio. This is going to be set aside for long-term investing where absolutely we want risk, we want volatility, we can afford to be more aggressive from this risk spectrum, step up and target that 7-8% performance on this allotted amount of your portfolio, which ends up being about $500,000.

So individual stocks, right? Dividend-paying companies. We're taking risks here, focusing on maximizing that total return. So risk volatility, that's our friend in this situation. Why? Because bucket one, and bucket two, cover those short to mid-term goals.

This is just an easy example of how this bucket strategy can be implemented today. It's streamlined, it's simple, and it's sensible for most people, but you have to work with an advisor to implement this because you want to avoid those mishaps that I spoke about earlier.

If you have any questions, reach out to the advisor that shared this video today and we'll see you next week.

Again, my name is Kyle Tomko. Off for now. Thank you.