Please note: This is a transcription so there may be slight grammatical errors.

Crystal Henderson:

Your retirement can be 20 to 30 years or longer. Do you know how you'll make your money last throughout those years?

During your working years, you've had the goal to grow your assets in preparation for retirement. As you get closer to retirement, it's important to start thinking about how you want to spend that money or said in another way, the withdrawal strategies that best align with your personal goals. One approach is called the bucket strategy. It involves allocating your retirement savings into three buckets: capital preservation, income, and growth. The difference between the three buckets is the time horizon for when you'll need to access the money and therefore, the level of risk you are able to take with those funds. The shorter your time horizon, the less room you have for error with riskier investments because you need that money to be available to you sooner rather than later. The longer your time horizon, the more risk you can take.

The idea with a three bucket strategy is to secure one to two years of cash or liquidity needs in a more conservative, low-risk capital preservation bucket, one that is likely to maintain its value in the short term. You would then place the next three to five years of living expenses in your income bucket, which is a portfolio with moderate risk. The remainder of your portfolio would be allocated to a longer term, higher risk growth bucket designed to maximize market returns.

To leverage the three bucket strategy, you must first calculate your annual retirement spending. Look at your spending history. How much do you need to cover your essential expenses like food, shelter, healthcare, utilities, transportation, and taxes. Next, identify your discretionary expenses, including hobbies, travel, entertainment, memberships, gifts, and any charitable giving. It's important to have a realistic picture of how much you're spending each year. If you don't already have a budget that you stick to, start by tracking your expenses for a few months.

Next, identify your sources of income in retirement. Some are considered lifetime income. Those you can expect to pay you as long as you live such as social security, pensions, or annuities. The next type is variable income sources or sources that have a finite amount of money in them and could run out if not managed well. These include 401k plans, 403b plans, 457 plans, IRAs and investment accounts.

The last categories, any other assets that could serve as additional income sources like rental property income or receiving an inheritance. Once you have a full picture of your retirement income and expenses, you can then allocate your retirement savings to each of the three buckets. Matching your different types of retirement income to your expenses can be helpful. Lifetime income sources like social security and pensions are often best matched with your essential expenses.

Knowing you can reliably provide food, housing, and medical expenses can ease your anxiety. But if your lifetime income sources are inadequate to cover your essential needs, you'll have to determine how much you need to draw from your retirement plans, IRAs, or other savings that you may have. If you'd like to get started on the bucket strategy, but need guidance, then call Captrust. We are here to help.

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