Retirement Income Strategies

After years of saving for retirement, you'll eventually be ready to start spending the money you've worked so hard to set aside. As you make the transition into retirement, you may worry about how much you can comfortably afford to spend without depleting your assets too quickly.

Having a disciplined retirement income strategy can help. Below we discuss two potential strategies.

Bucket Approach

It's not uncommon for new retirees to place all their savings into conservative investments for protection against market volatility. But future inflation can erode the buying power of the money you've been saving over the years. If your conservative investment earnings don't keep pace with inflation, your retirement lifestyle could be at risk.

When you think of your portfolio as different buckets of money with different time horizons — e.g., short (0 to 5 years), medium (6 to 14 years), and long (15 years or more) — you can have a separate asset allocation for each one.

Assume you've decided your short-term bucket should hold the amount you estimate you'll need during the first five years of retirement. You might want to put the money in this bucket into conservative investments, such as cash equivalents, to protect against short-term volatility.

The next step is to estimate how much you'll need for years 6 through 14. You may want to go with a moderate asset allocation for this bucket of medium-term money in hopes of earning higher returns.

The rest is your long-term money. Including more aggressive investments, such as stocks, in this 15-year-plus bucket would give you the opportunity to earn even higher potential returns. Although there is more risk, your investments in this bucket may have enough time to recover from inevitable downturns in the market.

During your retirement years, replenish your first bucket with assets from the second and replenish your second bucket with assets from the third. Your personal risk tolerance will determine the appropriate allocation for each of your buckets.

Systematic Withdrawals

Another approach you might consider is to spend only a set percentage (inflation-adjusted) of your initial savings — 4%, for example. You could invest your portfolio in a mix of asset classes and gradually move into a more conservative allocation over time.

Systematic withdrawal strategies are sometimes implemented using target date funds. Fund dynamics vary, however, and continued reallocation to traditionally more conservative asset classes may not occur in retirement with all target date funds.

Comparing Approaches

The systematic withdrawal approach has the advantage of simplicity. Making frequent changes in response to short-term fluctuations in investment values may not be wise. Regularly review your portfolio and withdrawal rate, however, to help you determine if you need to make adjustments in your strategy to stay on track.

The bucket approach is in many ways like budgeting. You may feel more in control of your money if you know that a portion of your savings has been specifically designated for income in the short term. But to use a bucket approach successfully, you’ll need regular analysis of the amount committed to each bucket and how that money is invested.

Your Personal Strategy

No single solution is right for all retirees. In addition to the retirement income strategies discussed here, there are other approaches you can consider. Having a thoughtful plan for managing your retirement assets can help you guard against overspending and make the most of the financial resources you have.