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A Bucket Plan to Go with Your Bucket List

A way to help you prepare.

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The baby boomers redefined everything they touched, from music to marriage to parenting and even what "old" means – 60 is the new 50! Longer, healthier living, however, can put greater stress on the sustainability of retirement assets.

There is no easy answer to this challenge, but let's begin by discussing one idea – a bucket approach to building your retirement income plan.

The Bucket Strategy can take two forms.

The Expenses Bucket Strategy: With this approach, you segment your retirement expenses into three buckets:
* Basic Living Expenses – food, rent, utilities, etc.
* Discretionary Expenses – vacations, dining out, etc.
* Legacy Expenses – assets for heirs and charities

This strategy pairs appropriate investments to each bucket. For instance, Social Security might be assigned to the Basic Living Expenses bucket. If this source of income falls short, you might consider whether a fixed annuity can help fill the gap. With this approach, you are attempting to match income sources to essential expenses.1

The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have contract limitations, fees, and charges, including account and administrative fees, underlying investment management fees, mortality and expense fees, and charges for optional benefits. Most annuities have surrender fees that are usually highest if you take out the money in the initial years of the annuity contact. Withdrawals and income payments are taxed as ordinary income. If a withdrawal is made prior to age 59½, a 10% federal income tax penalty may apply (unless an exception applies).

For the Discretionary Expenses bucket, you might consider investing in top-rated bonds and large-cap stocks that offer the potential for growth and have a long-term history of paying a steady dividend. The market value of a bond will fluctuate with changes in interest rates. As rates fall, the value of existing bonds typically drop. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity an investor will receive the interest payments due, plus their original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Dividends on common stock are not fixed and can be decreased or eliminated on short notice.

Finally, if you have assets you expect to pass on, you might position some of them in more aggressive investments, such as small-cap stocks and international equity. Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risk unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

The Timeframe Bucket Strategy: This approach creates buckets based on different timeframes and assigns investments to each. For example:
* 1 to 5 Years: This bucket funds your near-term expenses. It may be filled with cash and cash alternatives, such as money market accounts. Money market funds are considered low-risk securities but they are not backed by any government institution, so it's possible to lose money. Money held in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Money market funds seek to preserve the value of your investment at $1.00 a share. However, it is possible to lose money by investing in a money market fund. Money market mutual funds are sold by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.
* 6 to 10 Years: This bucket is designed to help replenish the funds in the 1-to-5-Years bucket. Investments might include a diversified, intermediate, top-rated bond portfolio. Diversification is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.
* 11 to 20 Years: This bucket may be filled with investments such as large-cap stocks, which offer the potential for growth.
* 21 or More Years: This bucket might include longer-term investments, such as small-cap and international stocks.

Each bucket is set up to be replenished by the next longer-term bucket. This approach can offer flexibility to provide replenishment at more opportune times. For example, if stock prices move higher, you might consider replenishing the 6-to-10-Years bucket, even though it's not quite time.

A bucket approach to pursue your income needs is not the only way to build an income strategy, but it's one strategy to consider as you prepare for retirement.

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