A CLOSER LOOK AT "BUCKET PLANNING" STRATEGIES

What it is, why it works, and how to explain the approach to clients.

[By Peter J. D'Arruda]

During the last three years, we witnessed significant and historic market fluctuations. Has this affected people's thoughts about the market, their investment portfolios, and how they live their day-to-day lives?

For some people, there is no change in their thoughts or behavior. For many others, the impact is tremendous emotionally, psychologically and financially. It is important for people to separate their money from their emotions, but this is difficult if their emotions depend on their money. However, diversification, proper income planning, and using a "buckets of money" strategy can help ease people's negative emotional reaction to their financial situation and volatility in the market. ➤➤

I call it "bucket planning," and we use it often because it makes so much sense. It is essentially educating your clients on having at least four different buckets of money — one for immediate income and three others that grow and provide income down the road. At least one of the buckets should be guaranteed income the client cannot outlive, with remaining money passing to children, grandchildren or charity.

Despite the decline in the market between 2007 and 2009, none of my clients who implemented this bucket strategy had to make changes to their financial strategies. Their income did not change and the drop in the market did not affect their ability to continue living in the manner they wanted. They were essentially unaffected by the market decline. Then, as soon as the market started to see some increases, many of my clients' portfolios began to rise with the market. A good bucket strategy can be the difference between a 30% decline or a 30% increase in a client's portfolio.

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"Buckets of Income"

You can also educate your clients about bucket strategies. There are multiple bucket strategies out there and it is important to differentiate one strategy from another.

The one I prefer is the "buckets of income" strategy. This strategy involves using four different fixed or fixed indexed annuities, all with unique terms and benefits. This means the client cannot lose money, is always gaining money, and will always have guaranteed Income. The mainstream media has caught wind of this phenomenon. (*Kiplinger's Personal Finance* magazine ran an article on bucket strategies in its Nov. 2009 issue.) As a result, many people are curious to see what utilizing this type of strategy could mean for them.

One way to explain this approach to your clients is to tell them to think of it as a water well. It is a well that is always providing water, and, if set up properly, the water automatically flows right to the client and never runs dry. The buckets represent stages in the client's life, with a bucket of money for each stage, and the water never runs out.

The main goal is to provide the client with an annual stream of income for 15 years. At the end of that 15-year period, the final bucket still contains an income account with a value equal to or greater than the total amount the client started with. The final bucket is always built with a guaranteed income withdrawal benefit to take the client the rest of the way. This will help your client enjoy a predictable and guaranteed yearly income.

It is important to utilize annuities from highly rated and quality insurance companies, which may not be the ones that pay the highest commission. Always put your client first. Think of the peace of mind your clients will enjoy by not having to worry about their retirement income vanishing into thin air because of market shrinkage.

Some clients like our water wheel analogy. The first bucket in the wheel is pouring out water (income). There are more buckets right behind the first one and they are continuing to fill up, preparing to pour water (income) once the first bucket empties. This example shows there is constant motion and a consistent and predictable cash flow with no worries about account evaporation.

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As you know, some clients have a greater risk tolerance than others and are willing to take more of a gamble. In that case, I recommend creating four or five buckets, with a couple of the later buckets reserved for accounts with some risk attached.

Because each client is different, we must problem-solve in order to help our clients build, preserve, and transfer their wealth in the way the client wants, with the goal of having the money they need, when they need it. This concept can be seen at www.IRAtogo.com.

Strategy development

It should be noted that we developed our bucket strategy by examining a variety of fixed indexed annuities and comparing the results to the S&P 500. We also looked at dividends, the Vanguard Global Bond Index, and the Money Market Index. We discovered that many fixed indexed annuities performed quite well. In fact, they tended to do as well or better than the other alternatives we investigated over a period of time up to the end of 2008 without the inherent risk. This has been backed up by a recent Wharton School of Business study titled, "Un-Supermodels and the FIA — Guaranteed Living Income Benefit Insurance Products," by Dr. David F. Babbel.

Our bucket strategy has not only helped our clients find financial peace of mind and money when they need it, but has also significantly grown our practice. Please feel free to contact me with questions about our bucket strategies. I firmly believe in sharing ideas because helping others will always come back to me in "buckets."


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