
A Sure Fired Method To Avoid Running Out Of Money!

Over the years I have had the experience of working with people as to the proper way of taking money out of their portfolio for income. There is a fine balance of growth and safety of assets to accomplish this. On one level the portfolio must have a certain income consistently, while having the balance of the assets growing to feed income for the future.

Our method over the years has to been to use a system I call the **Asset Income Cycle** (AIC). This is a concept where we place assets of the portfolio in certain positions for growth and income. For example, if our client wants a steady stream of \$20,000 a year we can do the following:

Set up an income stream from cycle 1. This normally would be a certain income flow that is guaranteed to pay out the stated amount of income for a period of years, usually five year increments. In our example, we would use a five year payout. Concurrently, with this position, we would set up an account for cycle 2. This cycle's job is to grow assets over the next five years so there is enough assets to pay income for years 6-10. An example would be to place \$80,581 at 4% to grow for the five years to \$98,039. The present value of this figure would pay out the income needed for five years. An assumed money rate on payout is assumed. In our models, the assumed rate is usually lower than current values by design. This figure would fulfill the needed income for years 6-10.

Cycle three would not be needed until 10 years from the commencement of cycle 1 income. Since there is a window of approximately ten years, our client could consider accounts like mutual funds, bonds, or index fixed annuities. The purpose of cycle 3 is to grow at a higher rate of return and to make sure adjustments are made during the growth period to protect the growth and balance of the assets. For example, if we assumed an account would grow by 5% over ten years, the ending balance would be enough to fund income for years 11-15 years. A key to cycle 3 money is growth and safety. I found in my practice that **fixed index accounts** work well. If the assumptions hold true, there is enough money to fund the income stream. If the value of the c3 account is higher, the client can take more income or carve out the amount needed for the cycle 3 income needed.

Cycle 4 assets are normally needed 15 years out. The market appears to be the place to fund this money as there is enough time to monitor the growth and make adjustments along the way. Once the client gets to the 15th year of the process, cycle 4 will start the process over again; funding c1, c2, c3.

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Having used this process for many years I find that the process works extremely well and is easy to monitor. In each case the concern for spendable income is a consideration. Inflation and taxes are the components of what will be needed. Many times, the assumed inflated income is included in the model. However, since purchasing power is a subjective situation, I find that in many cases, our models can use a flat income level. The idea is that if purchasing power decline is not a major factor for our clients, we can carve off part of the growth in cycle 4 to supplement more income needed. By doing this we are leaving assets growing tax deferred for a longer period of time. Also, taxes are saved by not withdrawing money that not be needed. The key to the AIC process is that it can be easily monitored. By staying with the process you can use guarantees and market accounts to make sure you don't run out of money. The beauty of this type of planning is that you create time to adjust assets should the stock market have negative years.

The information discussed is for general concept we use with our clients. Should you wish to discuss how the Asset Income Cycle could be of value to you, contact me for a discussion to review if this strategy is for you.

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