SOLID ROCK WEALTH MANAGEMENT

WealthGuide

Retirement Income Strategies

An Educational Resource From
Solid Rock Wealth Management

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Introduction

Investing wisely for wealth accumulation is one thing, converting those investments into a retirement income stream you cannot outlive is another. While much attention has been devoted to the accumulation phase of investing, insufficient attention is often devoted to the distribution phase.

As one enters retirement, their focus typically shifts from building wealth to managing and preserving it. A major challenge is to make an investment portfolio provide inflation adjusted cash flow for the duration of life—and through different economic and market conditions. Satisfying the desire for safety with your investments with the need for growth requires careful planning.

There are many types of investments and multiple strategies for distributing income from investments. Developing an efficient strategy for distributing income from your investments can help ensure your money keeps up with inflation and lasts as long as you do.

Retirement Income Sources

Not all retirement income sources are the same. Some sources of retirement income are conservative and may provide safety of principal and stable, although lower, returns. Other investments are more aggressive but offer the potential for higher amounts of income should investment returns be positive. This doesn't mean one source of retirement income is better than another.

While many investors would like to invest only in conservative investments during retirement, most need growth investments to help them keep pace with inflation. Balancing the desire for safety with the need for growth is a delicate act.

More conservative, even "guaranteed", investments can provide a sense of security in knowing that in the event of an economic downturn, your income and principal have a good chance of remaining stable. The problem with these investments is they often have a low rate of return and may not provide a lifetime income that keeps up with inflation.

Investments that offer more growth potential, and more risk, may provide income that keeps pace with, or exceeds, inflation. One of the issues with these more aggressive investments is they are more volatile – their values fluctuate to a much greater degree than more conservative investments. In the event that investment values have dropped, but you still need to take a distribution for income purposes, you risk losing some of your principal

Retirement Income Distribution Strategies

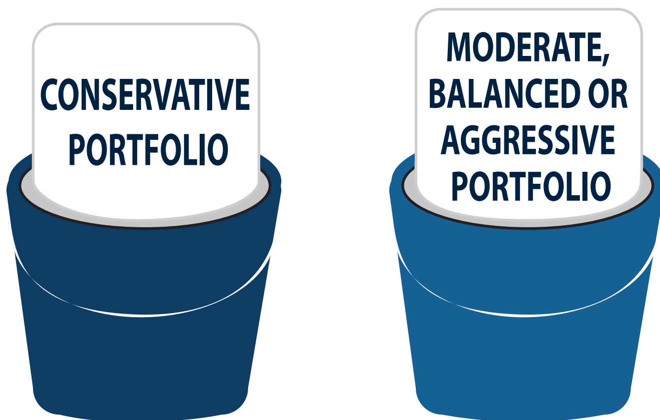
Retirement income distribution means converting your investments into income for retirement. Below are two income distribution strategies.

1. The Time-Segmented Bucket Strategy:

The Time Segmented Bucket Strategy is a strategy that provides secure retirement income though conservative or guaranteed investments in the early years of retirement and segregates riskier investments for use years after retirement begins.

This strategy spreads a person's investments across multiple investments "buckets", each designated to produce income over a certain period of time. These "buckets" of money will hold different investments ranging from conservative to aggressive. The more aggressive the investment, the longer the time frame the investment is held.

Different numbers of "buckets" may be used with this strategy depending on how many investments you want to use and how segregated you want them to be. The amount of money allocated to each bucket is determined by performing an in-depth analysis of a person's goals, attitudes about investing and risk tolerance. In this Wealth Guide, we illustrate a strategy using two buckets. The investments for each bucket are as follows:



How it Works:

The first bucket is often funded with a conservative portfolio comprised mainly of less risky investments such as short-term, high credit quality bond funds. This "conservative bucket" will be the bucket that you make distributions from each month or quarter for living expenses. Bucket one will contain enough money to make distributions for five years.

Bucket two is funded with a more aggressive portfolio containing a higher percentage of equities. Every five years or so, you will refill bucket one from bucket two.

The psychology behind this strategy is that it may cause less anxiety for the investor by having stable investments to derive your income from during the short term, while allowing you to leave the more volatile assets (stock and real estate funds) untouched for a longer period of time. If you can mentally divide your investments into different buckets, understanding that the riskier investment buckets won't be used for many years, it can help combat the urge to sell the more volatile investments during negative performing years. Because the more volatile asset classes are segregated with the understanding that they will not be used for a period of many years, it helps you to be more mentally prepared for the volatility these investments will incur.

2. The Systematic Withdrawal Strategy

With the Systematic Withdrawal Strategy, a person takes pre-determined periodic withdrawals from a diversified portfolio of stock, bond and real estate funds. Distributions are made each month or quarter from the portfolio and the portfolio is rebalanced regularly to the target allocation. Unlike the Time Segmented Bucket Strategy, the Systematic Withdrawal Strategy does not segregate the different types of investments into different categories to be used at different times.

Different methods exist for taking systematic distributions. One method is to distribute equal amounts out of each investment fund based on its percentage allocation of the portfolio. For example, if you are taking $5,000 per month from a portfolio containing 10 funds and each fund represents 10% of the portfolio, you would distribute 10% from each fund ($500) each month.

If you are using this method, it is important to work with a custodian and advisor that does not charge transaction fees for each trade you place, otherwise, the transaction costs you incur each month will greatly erode your investment return and negate the effectiveness of this method of distribution.

A second method requires you to deposit 6 to 18 months of desired income into a money market fund. Your monthly income is distributed from this money market fund and the portfolio is periodically rebalance to maintain the allocation to the money market fund.

Systematic Withdrawal Methods

There are two different types of systematic withdrawal methods; the Specified Dollar Amount and the Percent of Annual Portfolio Value.

The **Specified Dollar Amount** withdraws a fixed amount each year and adjusts that amount each year for inflation. This method can provide a stable income stream and preserve your living standard over time. The portfolio may only survive, however, if future withdrawals represent a small proportion of the portfolio's value.

The **Percent of Annual Portfolio Value** method withdraws a fixed percentage of money based on annual portfolio values. This method makes it unlikely that you will deplete retirement assets because a sudden drop in portfolio value would be accompanied by a proportional decrease in withdrawals. This method, however, can produce wide swings in your living standard when investment returns are volatile.

The 4% Rule

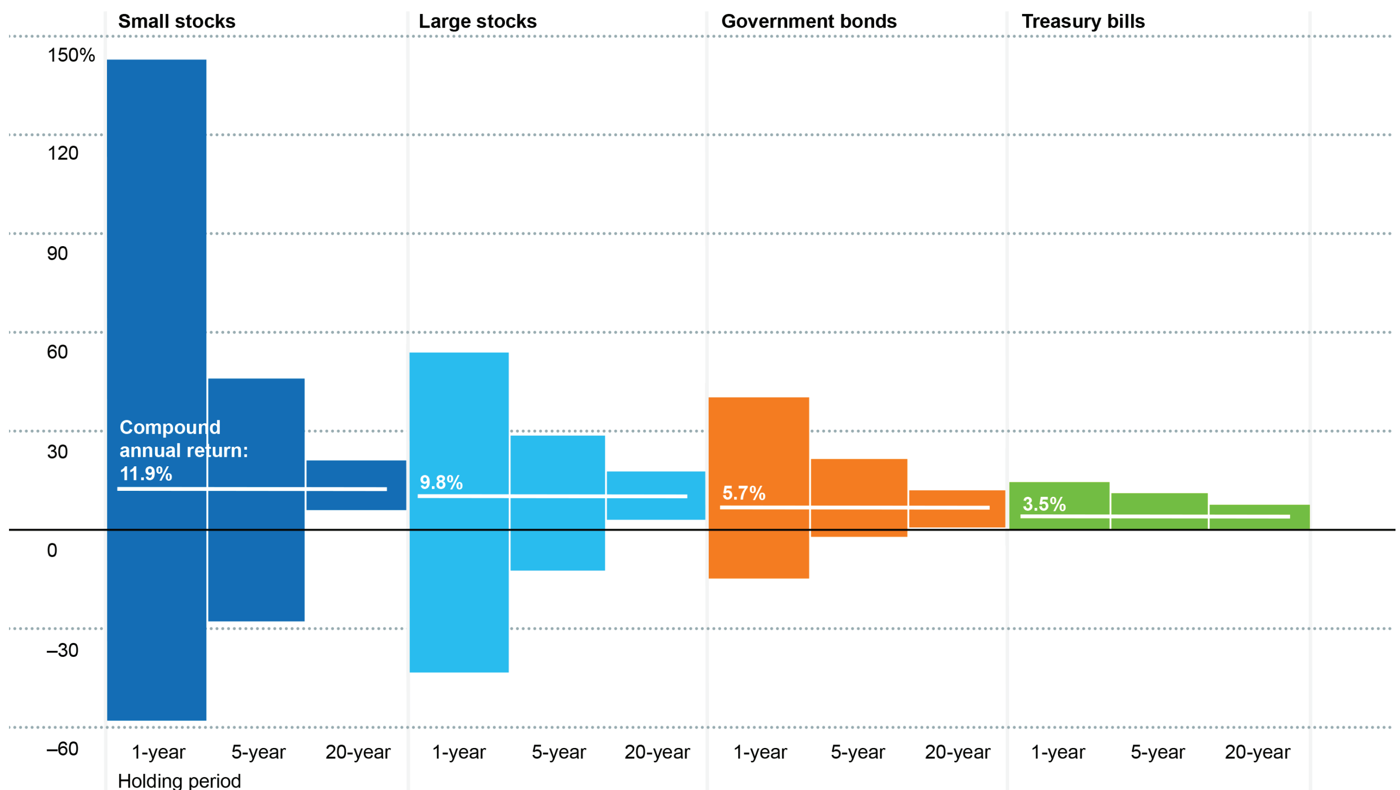
The "4% rule" is a common rule of thumb for providing sustainable retirement income. According to this rule, if you invest in a moderate portfolio containing approximately 60% equities 40% fixed income, you can initially withdraw 4% from your portfolio (including dividends and interest), increase your withdrawal amount each year for inflation, and still have a very high probability of not running out of money over a 30-year retirement. (1)

A concern with this strategy is severely depleting the account during sustained periods of negative returns such as during 2008 and 2009. During these severe market downturns, it is advised you reduce distributions if possible and to take money for living expenses only from the bond funds in the portfolio or from a money market account, giving the equities a chance to rebound. Once the equities have rebounded, regular distributions from each asset class may begin again.

Investment Holding Periods

While growth investments such as stocks and real estate funds can often have negative returns during short term periods, the longer the time frame they are held, the higher the chance these investments will have positive returns.

Although equity investments experience more volatility than safer investments, especially in the short term, the longer equities are held, the higher the chances these investments will experience positive returns. The graph below illustrates the reduction of risk over time of small stocks, large stocks, government bonds and treasury bills. As the holding periods increase, the chance of loss decreases.



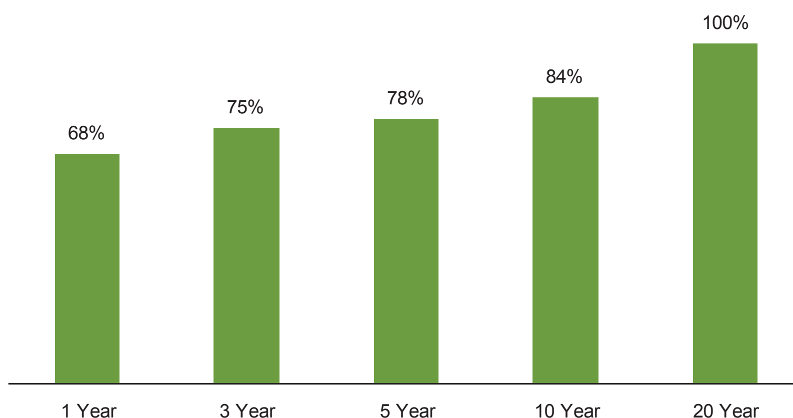
Past performance is no guarantee of future results. Each bar shows the range of compound annual returns for each asset class over the period 1926–2012. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Below is a similar chart comparing U.S. equities to U.S. treasury bills. As you can see, over one year time frames, equities have only out-performed treasury bills 67% of the time. As you increase the holding periods to five and fifteen years, however, equities have outperformed treasury bills 78% to 100% of the time.

Comparison of U.S. Equity and U.S. Treasury Bill Returns

January 1928–December 2011

Rolling Time Periods	1-Year	3-Year	5-Year	10-Year	20-Year
Number of Periods U.S. Equity Outperformed U.S. T-Bills	675	734	738	748	769
Number of Time Periods	997	973	949	889	769



Data Source: DFA Returns April 2012

Notes: Past performance is not indicative of future results. Periods roll on a monthly basis. U.S. Equity represented by the CRSP 1-10 Index. CRSP ranks all NYSE companies by market capitalization and divides them into ten equally-populated portfolios. AMEX and NASDAQ National Market stocks are then placed into deciles according to their respective capitalization, determined by the NYSE breakpoints. U.S. Treasury bills are one-month Treasury bills. Indexes are unmanaged baskets of securities that investors cannot directly invest in; they do not reflect the payment of advisory fees or other expenses associated with specific investments. Portfolios were developed using an asset allocation strategy similar to the one currently being used. Performance results do not represent actual trading, but were achieved using backtesting with the benefit of hindsight; actual results may vary. Hypothetical portfolios may not reflect the impact material economic and market factors might have had on Loring Ward's decision making if Loring Ward was actually managing clients' money at that time. Asset allocation models may not be suitable for all investors. Materials provided to approved advisors by LWI Financial Inc ("Loring Ward"). Securities offered through Loring Ward Securities Inc., member FINRA/SIPC. #02-041.

Diversification and Rebalancing

A properly diversified portfolio is constructed using multiple asset classes. By using multiple asset classes that don't move in tandem with each other, you help to smooth out the volatility of a portfolio. The asset classes in your portfolio will not move in tandem. Therefore, the amount of money you have in each asset category will change as markets fluctuate. In other words, your portfolio allocation will drift, much like a sailboat without a rudder. To keep your portfolio on track, we recommended that you periodically rebalance the funds in your portfolio to your target allocation percentages. This helps to maintain your chosen level of risk, and take advantage of price changes by automatically buying low and selling high.

Rebalancing is a simple concept, but realizing the benefits of it is a challenge for most investors because it often involves selling investments that have recently done well and buying investments that have recently done poorly. It is emotionally difficult to sell winners and buy losers. Over long periods of time, asset class performance tends to be mean reversionary which means that periods of above-average returns are often followed by periods of below-average returns and eventually revert back to a historical average return. Rebalancing helps you to take advantage of these cycles and, most important, it keeps you at your chosen level of risk. Proper rebalancing forces you to sell investments when they are up and buy them when they are down. This is counterintuitive and requires a strong sense of discipline and emotional detachment. Many individual investors do the opposite of what they should do which can cost them dearly.

Below is an Asset Class Index Performance chart illustrating the performance of multiple asset classes from 1997-2011. Each column contains nine different asset classes plus the Consumer Price Index (CPI). The asset classes are ranked each year by performance in each column with the best performing asset class on top and the worst performing asset classes on bottom. As you can see, every asset class randomly moves up and down over time.

Asset Class Index Performance 1998-2012

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Annualized Returns	
Large Growth 36.65%	Emerging Markets 66.49%	REITs 26.37%	Small Value 40.59%	5 Year Gov't 12.95%	Small Value 74.48%	REITs 31.58%	Emerging Markets 34.00%	REITs 35.06%	Emerging Markets 39.42%	5 Year Gov't 13.11%	Emerging Markets 78.51%	Small Value 34.59%	5 Year Gov't 9.46%	Large Value 28.03%	Emerging Markets 8.96%	Highest Return
S&P 500 Index 28.58%	Small Growth 54.06%	5 Year Gov't 12.60%	REITs 13.93%	REITs 3.82%	Emerging Markets 55.82%	Small Value 27.33%	EAFE 13.54%	Emerging Markets 32.14%	Large Growth 15.70%	Inflation (CPI) 0.09%	Small Value 70.19%	Small Growth 31.83%	REITs 8.29%	Small Value 20.32%	Small Value 8.82%	
EAFE 20.00%	Large Growth 30.16%	Inflation (CPI) 3.39%	5 Year Gov't 7.61%	Inflation (CPI) 2.38%	Small Growth 54.72%	Emerging Markets 25.55%	REITs 12.16%	EAFE 26.34%	EAFE 11.17%	S&P 500 Index -37.00%	Large Growth 38.09%	REITs 27.96%	Large Growth 6.42%	Emerging Markets 18.22%	REITs 8.78%	
Large Value 11.95%	EAFE 26.96%	Small Value -3.08%	Inflation (CPI) 1.55%	Emerging Markets -6.17%	EAFE 38.59%	EAFE 20.25%	Large Value 9.70%	Large Value 21.87%	5 Year Gov't 10.05%	REITs -37.73%	Small Growth 38.09%	Large Value 20.17%	Inflation (CPI) 2.96%	REITs 18.06%	5 Year Gov't 5.79%	
5 Year Gov't 10.22%	S&P 500 Index 21.04%	Large Value -6.41%	Emerging Markets -2.62%	Small Value -11.72%	REITs 37.13%	Large Value 17.74%	Small Growth 6.02%	Small Value 21.70%	S&P 500 Index 5.49%	Large Growth -39.12%	Large Value 37.51%	Emerging Markets 18.88%	S&P 500 Index 2.11%	EAFE 17.32%	S&P 500 Index 4.47%	
Small Growth 4.08%	Large Value 6.99%	S&P 500 Index -9.10%	Large Value -2.71%	EAFE -15.94%	Large Value 36.43%	Small Growth 11.16%	S&P 500 Index 4.91%	S&P 500 Index 15.79%	Small Growth 4.99%	EAFE -43.38%	EAFE 31.78%	Large Growth 17.64%	Small Growth -4.43%	Large Growth 17.22%	EAFE 4.38%	
Inflation (CPI) 1.61%	Small Value 4.37%	EAFE -14.17%	Small Growth -4.13%	Large Growth -21.93%	S&P 500 Index 28.68%	S&P 500 Index 10.88%	Small Value 4.46%	Small Growth 9.26%	Inflation (CPI) 4.08%	Small Growth -43.41%	REITs 27.99%	S&P 500 Index 15.06%	Small Value -10.78%	S&P 500 Index 16.00%	Large Growth 4.08%	
Small Value -10.04%	Inflation (CPI) 2.68%	Large Growth -14.33%	S&P 500 Index -11.89%	S&P 500 Index -22.10%	Large Growth 17.77%	Large Growth 5.27%	Inflation (CPI) 3.42%	Large Growth 5.97%	Large Value -12.24%	Small Value -44.50%	S&P 500 Index 26.46%	EAFE 7.75%	EAFE -12.14%	Small Growth 12.59%	Small Growth 3.84%	
REITs -17.50%	5 Year Gov't -1.76%	Small Growth -24.50%	Large Growth -21.05%	Large Value -30.28%	5 Year Gov't 2.40%	Inflation (CPI) 3.26%	Large Growth 3.39%	5 Year Gov't 3.15%	REITs -15.69%	Large Value -53.14%	Inflation (CPI) 2.72%	5 Year Gov't 7.12%	Emerging Markets -18.42%	Inflation (CPI) 1.74%	Inflation (CPI) 2.38%	Lowest Return
Emerging Markets -25.34%	REITs -4.62%	Emerging Markets -30.83%	EAFE -21.44%	Small Growth -34.63%	Inflation (CPI) 1.88%	5 Year Gov't 2.26%	5 Year Gov't 1.35%	Inflation (CPI) 2.54%	Small Value -18.38%	Emerging Markets -53.33%	5 Year Gov't -2.40%	Inflation (CPI) 1.50%	Large Value -19.90%	5 Year Gov't 0.64%	Large Value 0.87%	

Diversification does not guarantee a profit or protect against a loss.

Data Sources: Center for Research in Security Prices (CRSP), BARRA Inc. and Morgan Stanley Capital International, January 2013. All investments involve risk. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Past performance is not indicative of future performance. Treasury bills are guaranteed as to repayment of principal and interest by the U.S. government. This information does not constitute a solicitation for sale of any securities. CRSP ranks all NYSE companies by market capitalization and divides them into 10 equally-populated portfolios. AMEX and NASDAQ National Market stocks are then placed into deciles according to their respective capitalizations, determined by the NYSE breakpoints. CRSP Portfolios 1-5 represent large-cap stocks; Portfolios 6-10 represent small caps; Value is represented by companies with a book-to-market ratio in the top 30% of all companies. Growth is represented by companies with a book-to-market ratio in the bottom 30% of all companies. S&P 500 Index is the Standard & Poor's 500 Index. The S&P 500 Index measures the performance of large-capitalization U.S. stocks. The S&P 500 is an unmanaged market value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the index performance directly proportional to that company's market value. The MSCI EAFE Index (Morgan Stanley Capital International Europe, Australasia, Far East Index) is comprised of over 1,000 companies representing the stock markets of Europe, Australia, New Zealand and the Far East, and is an unmanaged index. EAFE represents non-U.S. large stocks. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes and different methods of accounting and financial reporting. Consumer Price Index (CPI) is a measure of inflation. REITs, represented by the NAREIT Equity REIT Index, is an unmanaged market cap-weighted index comprised of 151 equity REITS. Emerging Markets index represents securities in countries with developing economies and provide potentially high returns. Many Latin American, Eastern European and Asian countries are considered emerging markets. Indexes are unmanaged baskets of securities without the fees and expenses associated with mutual funds and other investments. Investors cannot directly invest in an index.

By systematically withdrawing a stated percentage from a diversified portfolio each year and rebalancing the portfolio back to its target allocation each year, you benefit from the performance of each asset class and keep your portfolio in line with your tolerance for risk.

In addition to rebalancing a portfolio on a regular basis, it is also advised that the equity allocation of your portfolio be decreased as you age. As you approach your life expectancy, you don't have as much time to recover from down markets which is why you should have a smaller allocation to the more volatile equity investments.

What about using bonds for income?

Investors often use bonds alone to provide income in retirement. While bonds pay steady income, using bonds solely for income can present some risks. Investing in bonds to provide a sufficient cash flow for retirement often means purchasing some bonds with longer maturities and lower credit quality. Purchasing bonds with longer maturities and lower credit quality increases the yield of the bonds but it also increases risk. Historically, longer-term bonds have been more volatile (as measured by standard deviation) than shorter-term bonds, and without much added return to show for it. A long-term bond can be a poor way to hedge inflation because when inflation rises, the purchasing power of the bond decreases. For this reason, it might be better to use a diversified portfolio of short-term, high-credit quality bonds combined with a diversified portfolio of stock and real estate funds.

Using bonds to meet future cash needs or generate income differs from an approach that focuses on asset allocation among multiple asset classes and using bonds to provide further diversification and reduce the overall risk of a portfolio.

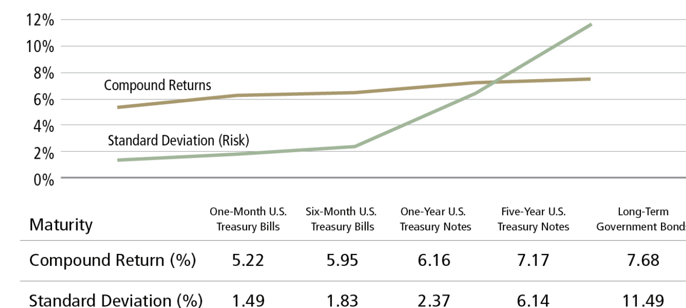
Fixed-income securities (bonds) form an important part of a comprehensive portfolio because they provide stability to counter balance the high volatility of stocks and real estate. Bond prices are much less volatile than stock prices and they often move in the opposite direction of stocks, making them an excellent source of diversification helping to reduce risk when the stock market declines.

Fixed Income Investment Factors

The performance in fixed income is largely driven by two factors: bond maturity and credit quality. Bonds that mature farther in the future are subject to the risk of unexpected changes in interest rates. Bonds with lower credit quality are subject to the risk of default. Extending bond maturities and reducing credit quality increases potential returns.

An effective way to diversify a stock portfolio with bonds is to allocate a percentage of your portfolio to high-quality, short-term bond funds. As seen in the charts below, research show that bonds with longer maturities and of lower credit quality have more risk than short-term bonds with high credit quality. Bonds that have longer maturities are affected more by unexpected increases in interest rates, while bonds with lower credit quality have a higher risk of default.

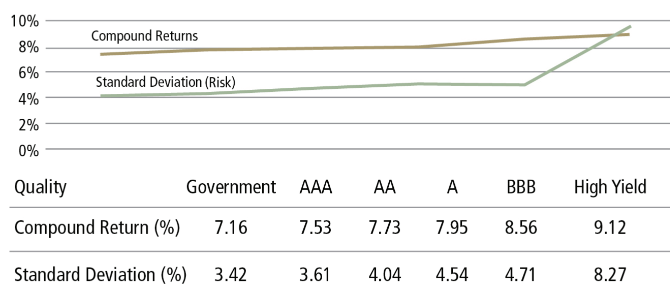
The Risk/Return Trade-Off in Long-Term vs. Short-Term Bonds
Quarterly: 1964 – 2012



Maturity	One-Month U.S. Treasury Bills	Six-Month U.S. Treasury Bills	One-Year U.S. Treasury Notes	Five-Year U.S. Treasury Notes	Long-Term Government Bonds
Compound Return (%)	5.22	5.95	6.16	7.17	7.68
Standard Deviation (%)	1.49	1.83	2.37	6.14	11.49

Source: DFA Returns. One-Month U.S. Treasury Bills, Five-Year U.S. Treasury Notes, and Twenty-Year (Long-Term) U.S. Government Bonds provided by Ibbotson Associates. Six-Month U.S. Treasury Bills provided by CRSP (1964-1977) and B of A Merrill Lynch (1978-present). One-Year U.S. Treasury Notes provided by CRSP (1964-May 1991) and B of A Merrill Lynch (June 1991-present). Ibbotson data ©Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). CRSP data provided by the Center for Research in Security Prices, University of Chicago. The Merrill Lynch Indices are used with permission; copyright 2012 B of A Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Assumes reinvestment of dividends. Past performance is not indicative of future results. Standard deviation annualized from quarterly data. Standard deviation is a statistical measurement of how far the return of a security (or index) moves above or below its average value. The greater the standard deviation, the riskier an investment is considered to be.

The Risk/Return Trade-Off in High Quality vs. Lower Quality Bonds Quarterly: 1983 – 2012



Quality	Government	AAA	AA	A	BBB	High Yield
Compound Return (%)	7.16	7.53	7.73	7.95	8.56	9.12
Standard Deviation (%)	3.42	3.61	4.04	4.54	4.71	8.27

Source: Morningstar Direct. Government rating is BarCapUS Government Intermediate Index, AAA rating is BarCap US Intermediate Credit Aaa Index. AA rating is BarCapUS Intermediate Credit Aa Index. A rating is BarCap US Intermediate Credit A Index. BBB rating is BarCap US Intermediate Credit BBB Index. High Yield rating is BarCap US High Yield Intermediate Index. Indices are not available for direct investment. Assumes reinvestment of dividends. Past performance is not indicative of future results. Standard deviation annualized from quarterly data. Standard deviation is a statistical measurement of how far the return of a security (or index) moves above or below its average value. The greater the standard deviation, the riskier an investment is considered to be.

There are two key lessons here. One is that short-term, high-quality fixed income investments should do a much better job at reducing the volatility of an overall portfolio than other types of bonds because their prices are more stable. The stability can help to reduce a portfolio's amount of price fluctuation. The other lesson is that it may not be wise to generate higher returns by owning long-term, low-quality bonds that require you to take on significant risk for not much reward.

Using Dividends for Income

Some people promote investing mainly in individual stocks that pay dividends for generating income. There are several problems with this approach. First, there is more risk in owning stocks than owning a combination of stocks and bonds. Second, there is more risk in owning a small number of individual stocks versus owning hundreds or thousands of stocks in a mutual fund or exchange traded fund. Third, by owning mainly dividend paying stocks, you lack diversification among other asset classes. All asset classes go through up and down cycles, including large company value stocks, which are typically higher dividend paying stocks. Modern Portfolio Theory and other academic research have shown that combining multiple asset classes in a portfolio is the most prudent strategy for minimizing risk while enhancing return.

What About Annuities?

Annuities are investments offered through insurance companies that can be used to accumulate money and/or provide a contractually guaranteed income for retirement. The guarantees are subject to the claims paying ability of the insurance company issuing the annuity policy.

There are two basic types of annuities, **immediate annuities and deferred annuities**. Immediate annuities are purchased solely for generating income. When you purchase an immediate annuity, you select a specified period of time you would like to receive income. This can be a period of years or for your lifetime. The immediate annuity then pays you a guaranteed amount of income for the period you select.

Deferred annuities accumulate money on a tax-deferred basis. Deferred annuities can usually be annuitized at any time to generate a guaranteed income stream like an immediate annuity. When a deferred annuity is annuitized, the annuitant turns over control of the asset to an insurance company in exchange for the guaranteed income stream.

Some deferred annuities also offer optional riders called Guaranteed Minimum Income Benefits or Guaranteed Minimum Withdrawal Benefits. These optional riders "guarantee" a stream of income no matter what the underlying investment returns. Guarantees almost always come at a cost and in this case, the cost for these riders is often very high. These types of policies can also be very complex and confusing.

While annuities have some attractive features and may serve a role in retirement planning, a better solution in my opinion, is to use a diversified mutual fund portfolio for retirement income as described earlier in this wealth guide.

Tax Efficiency

Tax planning is an important part of helping to ensure lifelong retirement income that keeps pace with inflation.

Investments and accounts are treated differently for tax purposes. When deciding which investments and accounts to distribute income from, it is important to consider the taxation of each. One way to do this is to categorize your assets into three distinct buckets.

The first bucket, which includes investments outside of a retirement fund, is your taxable bucket. It is typically recommended that you tap these investments first because the capital gains tax rate may be more favorable than the ordinary income tax rate you will pay when withdrawing from tax-deferred accounts such as an IRA or 401(k).

Another reason for taking distributions from taxable accounts first, especially for younger people, is taxable accounts typically don't have penalties for early withdrawals. Qualified retirement plans such as IRAs and 401(k)s have a 10% penalty for withdrawals made prior to age 59 ½.

The second bucket includes your tax-favored accounts, such as a traditional IRA and 401(k). For many investors, it's best to leave these funds untouched until their taxable investments are depleted, allowing these accounts to accumulate tax-deferred as long as possible.

Required Minimum Distributions are required to be taken from traditional IRA and 401(k) accounts by April 1 of the year after you reach age 70½.

The third bucket includes your tax-free accounts, such as a Roth IRA. This is funded with after-tax dollars so earnings are tax-free once you reach retirement age. It's generally recommended that you take distributions from Roth IRAs last since there are no minimum withdrawal rules for a Roth and your earnings will continue to grow tax-free.

The other benefit to leaving your Roth for last is that your heirs will not owe taxes on an inherited Roth IRA and they're able to spread their withdrawals over their lifetimes, allowing the account to continue its tax-free growth.

Summary

Different investments serve different purposes in a portfolio. Some provide growth others provide stability and income. Combining a portfolio with both growth and income investments is often necessary to provide inflation adjusted income that will last one's life expectancy.

Different strategies exist for distributing income from investments. The Time-Segmented Bucket Strategy is a method of dividing investments into multiple buckets based on their risk and return characteristics. A goal of this strategy is to help combat the urge to sell volatile asset classes during a down market. By segregating the more volatile asset classes with the understanding that these asset classes won't be used for income for an extended period of time, one may be more willing to endure the volatility these investments experience.

The Systematic Withdrawal Strategy takes pre-determined periodic withdrawals from a diversified portfolio of equity and fixed income investments. Distributions are made each month or quarter from the portfolio and the portfolio is rebalanced regularly to the target allocation.

Using bonds solely for providing income may not be the best approach because this strategy may involve purchasing bonds with lower credit quality and longer maturities in an attempt to increase yield. Bonds with lower credit quality and longer maturities have historically not provided returns commensurate with the added risk they incur. Using short-term, high credit quality bonds along with equities may be a more effective strategy for balancing the need for growth with the need for safety and providing an income that keeps pace with inflation.

Using dividends from individual stocks or annuities are two popular retirement income sources. Although these offer some advantages, a diversified portfolio of mutual funds containing multiple asset classes can be a more prudent strategy for balancing risk and return and for providing inflation adjusted income.

The tax efficiency of your investment and portfolio distribution strategy plays an important part in accumulating and distributing income for retirement. Because different investments and accounts are treated differently for tax purposes, how and when you distribute income from the various types of accounts and investments can have a big impact on how long your money will last.

There are many factors to consider when planning for a retirement that could last 20 years or longer. You need a comprehensive and cohesive plan that addresses investment choices, portfolio distribution strategies, emotions, inflation, taxes and other factors. Without a solid plan, you run the risk of running out of money or facing an ever-decreasing standard of living.

For more information on investing and retirement planning, call Chris Nolt at 406-582-1264 or visit www.solidrockwealth.com

Sources:

1. Cooley, Hubbard, and Walz, Retirement Savings: Choosing a Withdrawal Rate That Is Sustainable," 16–21.

Chris Nolt is the owner of Solid Rock Wealth Management, Inc. and Solid Rock Realty Advisors, LLC, with offices in Bozeman, Montana and Fountain Hills, Arizona. Solid Rock Wealth Management and Solid Rock Realty Advisors are dedicated to helping people effectively grow and preserve their wealth. We use a comprehensive planning approach with a team of financial professionals, which addresses retirement planning, investment planning, estate planning, tax planning, charitable giving and risk management. Our wealth preservation strategies are designed to help our clients reduce taxes, increase retirement income and maximize the amount of wealth they pass on to their heirs and favorite charitable organizations.

Solid Rock Wealth Management

Solid Rock Wealth Management is an independent, fee-only registered investment adviser. We offer globally diversified portfolios of no-load, low-cost institutional asset class mutual funds and exchange traded funds. Are portfolios are diversified among as many as 15 asset classes and market sectors and are comprised of holdings in roughly 12,000 companies in 45 different countries. Our model portfolios range from conservative (100% fixed income) to aggressive (100% equities) and are designed to achieve optimal returns for your level of risk tolerance.

Solid Rock Realty Advisors

Solid Rock Realty Advisors assists investors who are seeking secure income producing real estate investments. We specialize in office buildings leased to the U.S. Federal Government and primarily work with investors who are purchasing properties through a 1031 tax-deferred exchange. These fee-simple real estate properties offer long-term leases guaranteed by the full faith and credit of the U.S. government with competitive cap rates and professional property management.

Chris Nolt, LUTCF

Chris grew up in Lewistown, Montana. He received a Bachelors degree in business from Montana State University in 1987 and entered the financial services industry in 1989. For over 25 years, Chris has been helping people reduce taxes, invest wisely and preserve their wealth. Chris has earned the designations of Certified Retirement Financial Advisor and Life Underwriter Training Council Fellow.

For more information or to request other Wealth Guides, call 406-582-1264 or send an email to: chris@solidrockwealth.com

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