How to Make Sure You Don't Run Out of Money in Retirement

If you're like most people, your #1 worry when you think about retirement is ***outliving your money***. Right? You're not alone. This is the first fear most people imagine when they think about their retirement. What's more, there are a host of other retirement money worries piled on too. For example,

- How do I make sure I don't spend too much – or too little – in retirement?
- How do I manage different income sources and understand the tax implications of taking money out of retirement accounts?
- How should my portfolio be invested when I don't have a regular paycheck?
- How do I pay for unexpected expense when they pop up?
- How do I make sure I don't pay too much for advice on managing retirement income?

To enjoy your retirement, you need sound answers, or you won't sleep well at night. These are tough questions and if you don't have good answers, you won't be as happy and carefree as you'd like to be. You'll feel like you're in prison and not free. After all, "freedom" is what retirement means to most people.

What's the Solution?

Break your retirement up into short time segments. That's right. Many of us think of retirement as a long road. But what If you plan your retirement in a series of shorter-term time segments. like short road trips instead of a cross-country trek. That makes it much more manageable and you'll reduce the variables. It's easier to think about what will probably happen in the next seven years than it is to think of what might happen for the next 35 years.

A series of shorter-term plans is much easier to create and adjust as you go along. Doing it this way you can have the retirement you want, free from the worries we listed above. You'll be free to do what you want (within reason), have money for unexpected expenses, invest wisely, not pay too much for good advice and best of all, not outlive your money. Sound good? Okay, let's describe how the time segment way to retirement income works.

How Time Segments Work

Think of retirement income planning using time segments like putting money into four buckets. In fact, we like the image of buckets so much, we often use the terms interchangeably.

Using time segments (buckets) in managing retirement assets is not a new idea. Large pension plans and savvy financial advisors have been using this idea for the last 50 years. It's based on three simple ideas:

1. For money you need sooner, keep it safe by minimizing investment risk.

2. Let money you need later in retirement grow.
3. Set aside money for “what if” events.

Here is a picture of what we mean.

	COMPOUND GROWTH		
Segment 1	Segment 2	Segment 3	Segment 4
NOW Money	**SOON Money**	**LATER Money**	**“WHAT IF” Money**
No Risk	Conservative	Growth	Balanced

TIME

This is the basic model of a time segment (buckets) approach to retirement income planning.

How Money Is Invested

Remember the first two principles we mentioned above:

- The sooner you need the money, the less investment risk you want
- Let money you need later in retirement grow

Following these ideas:

- **Segment one** lasts for two to three years. Because you will need this money soon, segment 1 is held in CDs or a high-yield savings account. This protects the principal and makes sure you have the money you need when you need it.
- **Segment two** goes for seven or eight years and is invested in a CD ladder, bond ladder or short-term government bond ETF or mutual fund. You’ll have some growth in segment two, but the idea is security to avoid the #1 investment risk in retirement – the potential for the investment markets to nosedive deeply and suddenly just when you retire.

> **Key Point**
>
> Research shows that if you can avoid taking money out of your portfolio early in your retirement if the value of your portfolio is going down, you’ll be much more likely not to have to adjust your lifestyle later in retirement.

- **Segment three** lasts for 25 years. Some people divide bucket three into a series of shorter segments, but you get the idea. Investments in the “Later Money” bucket are invested more aggressively because you won’t need the money for at least ten years. You’ll still follow sound asset allocation investing principles. For example, you might allocate 70% of your segment three money into a diversified list of stock mutual funds or ETFs and 30% to fixed income instruments.
- **Segment four** is your “What If” bucket. As in:
  - ✓ What if an un-expected expense pops up?
  - ✓ What if we want to take a big trip with the whole family?
  - ✓ What if you want to give money to charity or your family?

Money in bucket four is invested in a balanced way because you don't know when you will need it. For example, you might invest your dollars in this time segment 50% in a diversified set of stock mutual funds or ETFs and 50% in fixed income mutual funds or ETFs. You want some growth in this bucket if you can, but you also want to have money that you can access quickly if something comes up.

Imagine a Future With Less Worry

Can you see how your retirement would be a lot more relaxed and carefree using this approach to retirement income planning? Instead of worrying about the daily gyrations in investment markets, you can just do the things you always wanted to do in retirement. You can travel, take up hobbies, volunteer, and just ***relax***. Instead of fretting about the unknowns of life – the "what ifs" we like to call them – you can be confident that you have a retirement income plan that is simple, sound, and flexible. Imagine the freedom that will give you.