CREATING YOUR RETIREMENT INCOME WITH 3 STEPS

Think of your assets as a series of buckets: one absolutely **stable bucket for short-term goals**, another for **intermediate-term needs**, and a third with potential for **long-term growth**. Consider these guidelines:

1. **The short-term bucket** (savings you'll withdraw in the next 3 years). This is your principal source of near-term income, so you will need stability and easy access---particularly for the amount of money you know you'll need during the next 12 months. Consider holding those funds in a savings or money market account. With the rest of your short-term assets, consider constructing a ladder of CDs. Say you have $50,000 saved for years 2 and 3. You could invest $12,500 in 6 mos. CDs, $12,500 in 1 year CDs and so on until you use the last $12,500 to buy 2 year CDs. As each set of CDs matures, you would reinvest the principal in another group of 2 year CDs. A ladder protects against the risk of investing all your short-term money when interest rates are low and also lets you take advantage of longer-term CDs' typically higher interest rates.
2. **The intermediate-term bucket** (funds you'll need in 4 to 10 years). Devote these funds to fixed income investments that provide a measure of income and stability. For this category, you should consider high-quality fixed income investments. For example, a bond of reasonable quality will return your original investment at maturity and will pay interest in the meantime. With interest rates at historic lows, you should build flexibility into your fixed income portfolio. Building a bond ladder---similar to the treatment of CDs mentioned previously---could help you do that.
3. **The long-term bucket** (savings you'll withdraw in more than 10 years). The final bucket provides long-term growth potential, which can serve as a hedge against inflation and help boost your withdrawals and retirement income down the road. Here, you can weight your investments with equities which offer growth potential. Each year, of course, you'll draw down a portion of your short-term bucket. You or your financial planner can determine the appropriate strategy for using assets from your other buckets to help replenish it. That strategy may include selling shares from your long-term bucket as the market recovers, using the proceeds to shore up your short and intermediate term buckets. Many investors find it tough to sell winners but if your growth bucket has a big run, putting some of those assets toward your floor will cushion your savings from future bear markets.