

The new money-for-life retirement plan

Forget the recommended 4% annual drawdown of your nest egg. This strategy creates both guaranteed income and growth potential.

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By [Kiplinger's Personal Finance Magazine](#)

In the midst of the stock-market meltdown in October 2008, Arthur Szu-tu, a relatively new retiree at 60, was gripped with fear and anxiety. He had no pension, he was too young to collect [Social Security benefits](#), and he was relying completely on his savings.

"Intellectually, I knew I couldn't cash out my stocks because I might live another 35 years and I would need the higher investment returns that come from stocks," says Szu-tu, a former technology manager from Syracuse, N.Y.

"But emotionally, it was really scary."



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As retirees watched their account balances plummet, many were advised to reduce their withdrawals or go back to work to preserve their [nest eggs](#). "The thought of becoming a Wal-Mart greeter or McDonald's counter boy did not allow me to sleep at night," quips Szu-tu.

He decided he would rest easier if he mentally separated his investments into two groups: cash and bonds that could sustain him through his initial years of retirement, and stock funds that he would leave untouched until they could recover and grow.

Without realizing it, Szu-tu had stumbled on an alternative income model that has been kicking around in some retirement-planning sectors for more than 20 years but attracted little attention until recently. As long as the stock market was booming -- and bonds performed well when stocks tanked -- the so-called 4% rule for systematically withdrawing [retirement income](#) from an investment portfolio worked well.

That rule of thumb became the gold standard for creating sustainable retirement income. According to the 4% rule, if you invest in a moderately risky portfolio of 60% stocks and 40% bonds, you can initially withdraw 4% of your assets, increase that amount in subsequent years to keep pace with inflation and still have a 90% probability of not running out of money over a 30-year retirement.

Probabilities are fine -- until you become a statistic. The recent bear market was so severe and so unusual (because virtually every asset class, except Treasury bonds, suffered severe losses) that it has called into question even that conservative strategy. The biggest threat to retirement wealth is withdrawing too much money from a shrinking nest egg, because there may not be enough left to benefit from the inevitable market rebound. Retirees were urged to skip their annual inflation adjustments -- or, in cases of severe investment losses, to reset their 4% distribution schedule based on their new, lower balance.

Income for life

Philip Lubinski, a financial planner in Denver, has spent more than two decades advising clients on how to prepare for retirement. "If it weren't for inflation, cash and bonds would be all you need," he says.

But even with modest inflation of 3% a year, your buying power would be cut in half in about 25 years, so you need to invest for future growth, too. When you add stocks to your portfolio, however, you also add risk. In the 1980s, Lubinski began working on an investment strategy that would provide secure income in the early years of retirement and shift riskier stock investments to a longer-term portfolio.



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He divided clients' assets into five-year increments, and funded each with enough money and appropriate investments to provide income for that period of retirement.

The first phase of this "income for life" model focuses on guaranteed income. In a high-interest-rate environment, a ladder of certificates of deposit with staggered maturities would work well. But in today's low-interest-rate climate, a five-year immediate-payout annuity gives you more bang for the buck.

Phase two focuses on conservative income-generating investments, such as a bond ladder or a deferred annuity, that can be converted to an income annuity in years six through 10. Each subsequent phase allocates a little less money and directs it toward assets that are slightly riskier. The goal is to refill the immediate-income bucket every five years. It takes a minimum of \$250,000 to implement this strategy.



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In retirement, "clients are more concerned about reliability of income than about return on investment," Lubinski says. "You can't chase both at the same time."

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But you can achieve both goals if you compartmentalize your money based on short-term, medium-term and long-term needs.

Now Lubinski spends much of his time training other financial advisers to use his model. And demand is growing. For a more in-depth explanation, see the Income for Life Model [Web site](#), where you can also search for planners who incorporate this strategy in their practices.

A sideways pyramid

Jim Coleman, the head of Coleman Financial Advisory Group in Waterbury, Conn., has added his own twist to the income-for-life model. When describing the strategy to clients, he tells them to think of a classic risk pyramid, which puts the safest investments (such as bank accounts and money market funds) at the bottom and layers on progressively riskier investments (such as bonds and stock funds), building to a peak.

In the classic model, even if your investments are diversified, all your assets are at risk at the same time. Coleman flips the pyramid on its side so you tap the most conservative, risk-free investments at the beginning of your retirement timeline and let the riskier investments grow until the later years. Your most aggressive assets will have years -- and possibly even decades -- to grow, creating a source of stable retirement income in the future.

"With this divide-and-conquer strategy, you can have the best of both worlds," Coleman says.

This article was reported by Mary Beth Franklin for Kiplinger's Personal Finance Magazine.