Investment Advice For Every Generation

Member FINRA • MSRB • SIPC

Fiscal Fitness

Vorpahl Wing Securities *505 W. Riverside, Ste 205* *Spokane, WA 99201*

(509) 747-1749 *denniscr@vorpahlwingsecurities.com*

December 2008 Volume 8, Issue 12

The Three-Tier Growth & Income Plan

BY DENNIS C. ROGINSKI

You have spent years accumulating retirement funds. Now consider this: Do you have a plan to distribute those funds through your retirement years? With the current turmoil in the markets, it is more important than ever to structure your portfolio to allow for down markets, while at the same time providing a consistent cash flow to cover your monthly expenses.

I'm going to share with you some techniques by financial planners Harold Evensky and Deena Katz, with some variations of my own. I call it the "Three-Tier Retirement Growth & Income Plan." It works like this: After gathering all your sources of income, we would structure your retirement account—such as your IRA or 401(k)—based on your current needs, future needs, and risk tolerance.

The first tier is the "Liquidity Tier." Here we calculate any additional monthly expenses you will need above your monthly income. For example, if your monthly expenses are $3000 and your monthly income $2,500, your "liquidity tier" will require you to save six months of expenses: [($3,000 - $2,500) x 6], which equals $3000. This $3,000 will be held in a simple checking account to cover your daily needs.

The second tier is the "Two-Year Reimbursement Tier." It involves holding two years of monthly expenses, which in our example would be $12,000. Half of this amount would be held in a money market fund or some other liquid investment; the other half would be invested in short-term, high-quality investments such as certificates of deposit or a short-term government fund.

The third tier is the "Growth & Income Tier." Investments in this tier depend on your age, future needs and risk tolerance. Let's assume, based on these factors, you decide to invest 50% in fixed income investments and 50% in a growth stocks. As time passes, the funds from the first tier are depleted, so funds from tier two are used to reimburse them. As tier two is depleted, it is reimbursed by funds from tier three, with market conditions determining which investments are used.

Fixed income investments normally hold their value better than growth stocks during down markets, so if the market has been weak, some fixed income investments are sold to reimburse tier two. This allows the growth stocks more time to recover and to begin generating profit. During strong markets, some growth stocks could be sold to reimburse tier two.

It's important to know your withdrawal rate in order to determine what type of return you will need on your investments. Let's say your IRA is worth $100,000 and you need $6,000 for your annual expenses. To figure the withdrawal rate, you divide the annual expenses by the worth of your IRA ($6,000/$100,000), yielding a rate of 6%. This means you would need to generate at least a 6% overall annual return to keep all tiers financed.