

The Bucket List

IFLM Updates the Retirement Income Ladder

By Kerry Pechter

The “bucket method” of assigning money to different short-, medium and long-term accounts has long served as a convenient and more or less reliable way for advisers to control risk and generate inflation-adjusted income for their retired clients.

Bucket or “segment” techniques come in a number of flavors. Some are simply modified systematic withdrawal plans. Others use laddering strategies. One method mingles personal finance with **Abraham Maslow’s** famous hierarchy of needs.

A laddering-type bucket method that’s currently being marketed to broker/dealers and advisers is the **Income for Life Model (IFLM)**. First sketched out by Denver CFP **Phil Lubinski** over 20 years ago, IFLM has been artfully updated and packaged for the Web by **David Macchia**, CEO of Canton, Mass., financial marketing firm, **Wealth2K**.

Style—meaning clarity, sophistication, persuasiveness—and substance tend to receive equal weight in IFLM. As described in incomeforlifemodel.com, it’s “an investing framework for retirement income distribution combined with advanced tools for marketing, education and compliant management.”

IFLM has an open, flexible, product-neutral architecture that allows advisers to generate income in any number of ways—with annuities or without—and to model different strategies or make mid-course corrections. It also comes pre-submitted to **FINRA**, or the **Financial Industry Regulatory Authority**.

How IFLM Works

Lubinski recently explained the mechanics of IFLM to *RIR* over the

phone from his firm, **First Financial Strategies, LLC**, whose broker/dealer is **INVEST Financial** in Tampa, Fla. For the sake of easy illustration, he hypothesized a 65-year-old client with about \$1.33 million in investable assets.

At the start, the adviser assigns a quarter of the assets to an emergency or bequest fund. He then dedicates the rest (\$1 million) to generating income over a retirement of up to 30 years. He divides that money into six segments or accounts, the first five of which will provide income over successive five-year periods. (Others have claimed the rights to this usage of the term “bucket,” and IFLM avoids it.)

“Typically we put 75% of the money in the model, so that they have money for emergencies,” Lubinski said. “If they can’t get the income they need from 75%, we might take the side account for emergencies or bequests and add it to the income formula instead.”

Each succeeding bucket has less money, has a longer time horizon (by five years), holds a riskier asset mix, and is expected to grow faster than the one before it. In the first bucket, for instance, which provides income from age 65 to 70, the adviser might invest \$280,000 in a five-year period certain immediate annuity or a ladder of CDs delivering a safe and secure \$65,000 a year.

Bucket No. 2, to be tapped in five years (at age 70) has \$260,000 invested in a five-year deferred fixed annuity or five-year CD or bond. Bucket No. 3, ready in 10 years, has \$200,000 invested in a 50% equity, 50% bond portfolio. Bucket No. 4, ready in 15 years, has \$130,000 in a 60% equity portfolio.

Bucket No. 5, intended to provide

BUCKET LIST, *cont. on page 24*



The Two-Decade Evolution of IFLM

Phil Lubinski created the method that underlies the **Income for Life Model (IFLM)** two decades ago when he was working for broker/dealer **All America Financial** in Denver. A number of his clients had retired early from defense contractor **Martin Marietta** (now **Lockheed Martin**), and turned to Lubinski for a distribution strategy.

No off-the-shelf strategies were then available to him, “and I had to come up with something quick,” he said. He gathered some historical stock market tables and a few legal pads and began roughing out the basic laddered system that would evolve into IFLM.

Over time, the product was refined and formalized. Lubinski’s calculations and conclusions were vetted by **Rogerscasey**, the investment firm, so that All America “didn’t have to say that the only proof is from a Polish guy in Denver,” Lubinski jokes. A software firm was hired to upgrade the graphics.

IFLM did not assume its current form until this decade, however. In 2002, the CEO of All America Financial asked **David Macchia**, CEO of Canton, Mass.-based **Wealth2K**, the financial marketing firm that specializes in Internet applications, to “package up the system and make it Web-based.” The product was expanded to include variable annuity living benefits, adviser-personalized homepages, and the latest in online video capabilities.

Though All America Financial went out of business, Macchia invited Lubinski, who had the rights to IFLM, to turn IFLM into a new venture. Today, Macchia owns IFLM, and Lubinski earns a percentage of the profits in return for ongoing consultation and training services.

The cost of an enterprise-wide license for IFLM begins at \$5,000 a month. The price for all of the educational tools and communications technology that comprise the full IFLM system is \$49 per adviser per month for advisers in an IFLM-licensed broker/dealer and \$99 per month for others. Large broker/dealers can license the full IFLM system for as little as \$10 per month per adviser, Macchia said. *rir*

Skuttlebutt about IFLM And Other ‘Bucket’ Methods

One IFLM user is adviser **John Barton**, whose Wichita, Kan.-based firm, **CenterPointe Wealth Management**, is affiliated with **Securities America**, a broker/dealer that licenses IFLM from **Wealth2K**. So far, he likes it.

“IFLM addresses the question, ‘Once I retire, how do I structure my portfolio to generate money with a high degree of confidence?’” Barton said. “It’s designed for folks who say, ‘You’ve shown me the big picture. Now how do I replace my salary when I retire?’ It addresses a subset of the financial planning process.”

Barton likes IFLM because it provides a structure that his heirs could easily transfer to another adviser if he dies, it encourages collaboration between client and adviser, its product-neutral architecture won’t compromise his own objectivity, it helps the client avoid selling stocks in a down market, and because, in today’s unpredictable market, systematic withdrawal plans aren’t enough.

“During the first 20 years of my career we were in a bull market, and drawing income was less problematic,” Barton said. “You did systematic payments from your accounts and the darn things kept going up in value. That whole strategy has now come into question, that’s why I’ve gravitated to IFLM.”

Not everyone agrees that bucket methods are a panacea for retirees who want protection from sequence-of-returns risk—the risk that an ill-timed downturn will force a new or near-retiree to spend shrinking assets.

In his new book, *Are You a Stock or A Bond: Create Your Own Pension Plan for a Secure Financial Future* (FT Press, 2009), **York University** Finance Professor **Moshe A. Milevsky** compared a simple bucket method with a systematic withdrawal plan and found that the bucket method yielded higher returns in only 16 of 27 market scenarios.

Milevsky argues that a bucketer “implic-


itly has a more aggressive [equity] asset allocation as he progresses through retirement” and incurs the risks that inevitably accompany a higher exposure to equities.

One adviser thinks, as Barton does, that the IFLM method can be a powerful behavioral tool. “It might be valuable from a psychological standpoint, because the client doesn’t have to worry about his income in the immediate future,” said **Robert Kreitler** of **Kreitler Associates**, an LPL-affiliated adviser in New Haven, Conn.

“The long-term money might be bouncing around in value but he doesn’t worry about that because he doesn’t need it yet. So psychologically it would help. But I think if you ran the numbers it would not be very different from having all the money in one portfolio, and rebalancing every year.”

In “Tools and Pools,” a chapter in **Harold Evensky** and **Deena Katz**’s book, *Retirement Income Redesigned* (Bloomberg, 2006), Kreitler describes a five-pool system that assigns money to an income pool consisting of Social Security, pensions and income annuities; a bequest pool; a medical reserve; a pool for enhancing income if needed; and a surplus pool for travel, home improvements, or charity.

Another type of bucket system that’s been written about by **Mitch Anthony** and is often associated with **Briggs Matsko** is the pyramid system that blends finance with psychologist **Abraham Maslow’s** hierarchy of basic and higher needs. It proposes a “hierarchy of financial needs.”

In this five-tier pyramid, savings are dedicated first to “survival money,” then to “safety money,” “freedom money,” “gift money,” and, finally, to “dream money.” Of course, before using this system, clients have to search their souls to quantify their basic survival needs and the relative importance of their higher aspirations. 

BUCKET LIST, cont. from page 23

income from age 85 to 90, has \$70,000 in an 80% equity portfolio at the start and grows for up to 20 years. Bucket No. 6 has \$60,000 in equities, with about half in small-cap funds. If historical growth rates hold true, Bucket No. 6 will be worth \$1 million when the client is 90 years old, thus restoring the principal.

Based on historical returns, each bucket’s assets should, at maturity, provide five years of income that, to offset inflation, will be 15% higher (3% per year) than the income generated by the previous bucket. Lubinski predicts an average after-fee return of about 7.07% for the client. “You’re trying to maintain a four-point spread over inflation.”

In practice, Lubinski said, the model is product-neutral and as flexible as a gymnast. The amount of money in each bucket, the bucket’s risk profile, the choice of products in each bucket, and the returns anticipated from each bucket can be almost infinitely tinkered with.

One of the model’s key principles involves the harvesting of bumper returns. If a particular bucket grows faster than expected and can meet its goal with less risky assets, the adviser can shift money from stocks to bonds.

“I haven’t seen a serious bear market that wasn’t preceded by a bull market,” Lubinski said. “So if the fourth bucket hits its target by year 12, we can pull money out of equities and put it in bonds. That’s why it’s so important to do an annual review.”

The six-bucket model generates a higher annual payout, and is likelier to deliver a bequest to a surviving spouse or heirs, than a systematic withdrawal plan or putting most of one’s savings in a deferred variable annuity with a guaranteed lifetime withdrawal benefit, Lubinski claims. It can also easily satisfy minimum distribution requirements for qualified money.

The best part of the IFLM bucket model may be the fact that the client always knows where his or her next five years of income is coming from, and doesn’t have to worry when equity values lurch up or down by 200 or 300 points a day, as they did in August and September.

“Our 25-year money has lost 8% this year,” Lubinski said, “but the client’s income check hasn’t changed. Emotionally, the method allows them to keep their money in the portfolio. They’ll stay the course.” 