Pioneer Financial's Retirement Philosophy: It's Not Just About Accumulation

According to TD Ameritrade, there's a growing trend of Americans ages 40 to 79 dipping into retirement funds early. But retirement pay is about more than just simple accumulation over time—you have to also focus on *distributing* that wealth with *healthy sequencing*.

While that may sound complicated, sequencing is really just about the timing—when and how you withdraw from your retirement account to make the most out of your money.

The standard practice focuses heavily on the accumulation stage of your retirement. It treats the distribution phase as a one-size-fits-all situation. As you're about to see, however, this is far from the reality of a healthy retirement. Being smart about your distributions can make or break your retirement years.

The Status Quo: What's the Common Approach to Retirement?

The most common approach to retirement is the "pay yourself first" philosophy. While this is functional in some aspects, it completely ignores half of the retirement equation.

An extremely accumulation-heavy retirement planning landscape has emerged as a result. Yes, accumulation is important, but it's not everything.

The other half is your distribution strategy, which, if poorly executed, can leave you without as much money as you probably want later in life. In other words, you can save, plan, and invest all by the book, and still end up running low on funds later in retirement.

Pioneer Financial encourages a "big picture" approach to our clients' retirement planning that includes a well-balanced strategy that's equal parts accumulation and distribution.

Retirement Philosophy Part 1: Sequencing Distribution Properly

Sequencing your distributions properly is the foundation of the Pioneer Financial retirement philosophy. We make sure your distributions are sequenced in the context of maintaining maximum portfolio health and return. Surprisingly, this is something overlooked by many other retirement plans.

And, if left out, this can result in an increase in sequence risk (something we'll take a look at shortly).

The Accumulation of Wealth vs. The Distribution of Wealth

Accumulation of wealth and the distribution of wealth are the two halves of the balanced retirement equation.

The accumulation phase is what most people think of when discussing retirement planning. This is the stage wherein you are contributing to retirement accounts and investment portfolios in preparation for retirement. **These contributions should be allocated in diverse investment vehicles to keep your post-retirement tax-efficiencies at a maximum.**

The distribution stage is where the accumulated funds are managed and withdrawn in ways that provide the biggest benefits and advantages to the retiree.

The accumulation stage will generally last for the entire span of your working years and will be the period wherein you add funds to the accounts and portfolios you'll draw from later.

While many people save as much as they can while they can, there are provisions for older workers that need to contribute more than the conventional contribution cap. These are called "catch-up" contributions and should be leveraged if they are needed.

Many planners will tell you, "take out this much each year, and, if you invested properly, you'll be fine." However, this may not be the case. Volatile market conditions and unexpected economic downturns can make this one-size-fits-all solution infeasible.

This is where Pioneer Financial's retirement planning differentiator comes into play.

Why Is Wealth Distribution Planning So Important for Retirement?

Your wealth distribution planning can be the difference between strategic retirement funds management and shortsighted withdrawals that can prematurely deplete the funds you've saved.

If you retire in poor economic conditions, a poor plan for withdrawals could mean that markets' performances could reduce your primary sources of retirement income to levels difficult to recover from.

For example, according to Vanguard, most Americans aged 65 and older end up saving around $280,000 for retirement on average. And let's say John Doe, a 65-year-old, has $280,000 saved

up in strictly equities and has just retired amidst bearish market sentiment and serious economic downturn.

In this situation, John Doe's withdrawals won't be the only factor depleting his savings: Since his retirement portfolio is entirely equities, his portfolio shrinks ***even after*** he withdraws money that he needs to live as investors sell off and fewer people enter capital markets.

What's more, given that he retired in very poor market conditions, there are chances of his savings depleting even *faster*. The foundational flaw here is leaving your retirement funds at the complete mercy of the markets without a comprehensive distribution plan.

This is where sequence risk comes into play: You stay one step ahead of John Doe's situation here by **staying conservative early and getting aggressive later on**.

What Is Sequence Risk?

Sequence risk dictates that the order and timing of your retirement returns can unfavorably deplete your savings. That risks premature liquidation of your retirement funds.

Sequence risk can be a threat to retirement because, if there is significant negative performance during the **fragile decade** (the last five years of your career and the first five of retirement), important portions of retirement income can be jeopardized, and there may not be enough time to make up the losses with new plan contributions.

In short, taking large losses to your retirement account early on can hurt your overall retirement portfolio, and you need to know how to help protect against that.

What's the Best Stocks vs. Bonds Ratio (and Other Asset Allocation) for Retirement Accounts?

While there is no one-size-fits-all answer to this question, we believe appropriate asset allocation, with a conservative start and an aggressive finish, alongside a healthy stocks-to-bonds ratio, are crucial to help mitigate sequence risk.

Through our review of 3rd-party academia on the subject[1], we generally recommend a conservative start between 30% and 50% equities and an aggressive end-goal of about 60% to 80% equities.

Separate from this allocation, we also recommend a sizable cash reserve.

This approach, based on our research, is one of the best way to help mitigate sequence risk while living comfortably in retirement. The specific tactics surrounding how this asset allocation changes over time, however, will be custom-tailored to your personal situation.

Part 2 of Our Retirement Philosophy: Handling Taxes

No matter what, you're going to need to consider taxes in your retirement planning as you'll need to pay taxes upon withdrawal for any pre-tax contributions you made during your working years. Even if you choose to make your contributions from income that has been taxed already, for some account types, you'll need to manage taxes on the returns of the contributions you've created over the years.

Managing these tax events is a crucial component of ensuring you don't outlive your accumulated wealth and goes hand-in-hand with a smart distribution strategy.

How Do Taxes Play a Role in This Strategy?

While your distribution plan will be most significantly affected by the market conditions and your portfolio's health, the taxes imposed on those distributions are also going to factor in relatively heavily.

Diverse Asset Allocation Leads to Flexible Tax Planning

When you are in the accumulation phase, you should diversify your assets into various allocations that make them more resistant to overtaxing yourself. The most common and effective way that taxes can be managed is with diverse and dynamic asset allocation.

Staying invested across a diverse range of financial vehicles and instruments is vital to weathering market movement as well as taxation.

Managing these investments dynamically **and in the right order** for your situation is key to helping you see growth and tax-efficiency within your wealth distribution plan.

Plan a Comfortable Retirement With Pioneer Financial

If you fail to plan now, you could pay the price in retirement—trust Pioneer Financial to help you plan a practical and comfortable retirement without sacrificing quality of life, no matter the market conditions. One of the ways to reach this equilibrium is with wise distribution planning, something only we can help you achieve.

We'll handle the logistics that go into your retirement strategy, planning, and execution. This ranges from setting up a cash reserve for a rainy day to the actual distribution of retirement payments to you from your assets.

[1]Michael Kitces & Wade D Pfau “Reducing Retirement Risk with a Rising Equity Glidepath.” January 2014. 10,000 different trials were administered. One trial represents a compete analysis of the outlined objectives. Probability of success is determined by how many trials fully meet the objective. A starting equity allocation of 30% and and ending equity allocation of 70% administered a 95.1% success rate. Probability analysis illustrates separate trials of varying rates of return and inflation. Results may vary with each use of the Monte Carlo tool and over time. Rates of returns and calculations from Stocks, Bonds, and Inflation data provided by Morningstar and Ibbotson Associates. The U.S. S&P 500 index represents the stock market, and intermediate-term U.S. government bonds represent the bond market. Historical Data represented as average return from 1926-2011. **IMPORTANT: The projections or other information generated by Monte Carlo regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.**

All investments carry some level of risk including the potential loss of all money invested. No investment strategy, including diversification, can guarantee a profit or protect against loss.

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You should carefully consider risks with fixed income securities such as bonds, these include: Interest rate, Duration, Credit, Default, Liquidity and Inflation. Interest rates and bond prices tend to move in opposite directions, for example when interest rates fall, bond prices typically rise.   This also holds true for bond mutual funds.   A low interest rate environment may cause losses to bond prices and bond funds you own or in the market.

Stocks/Equities have greater potential for gains as well as greater potential for loss than bonds/fixed income investments.

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