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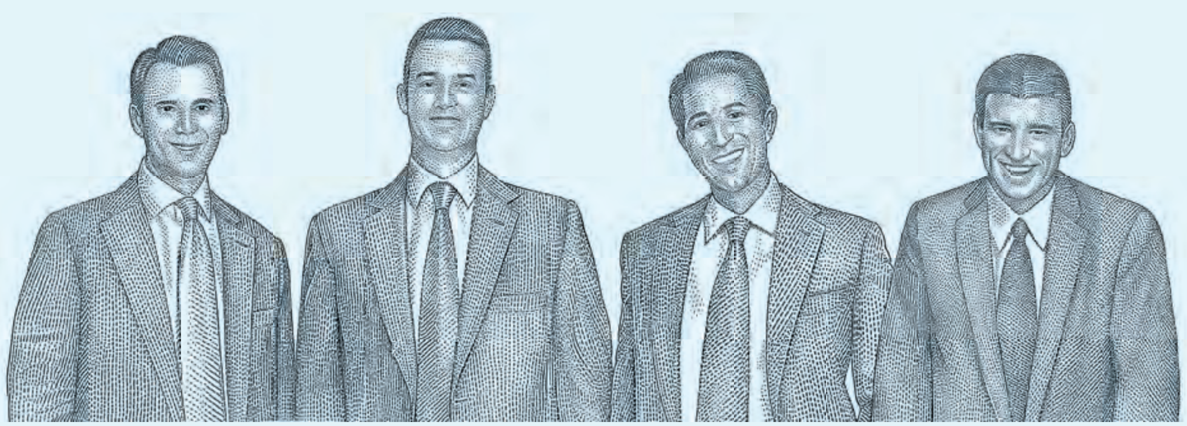
What philosophy will best help me transition from wealth accumulation to retirement income?

BY JAMES L. DINARDO, CLU®, CHFC®, CFP®, MSFS®



Left to right: Kevin R. Luchetta, Paul D. Tortorella, Stephen A. Schwartz, James L. DiNardo

PIONEER FINANCIAL AT NORTHWESTERN MUTUAL – PARK AVENUE

245 Park Avenue, Suite 1800, New York, NY 10167

646.459.6366

TEAM
Kevin R. Luchetta, CFP®, AEP®, Partner
Stephen A. Schwartz, CFP®, AEP®, Partner
James L. DiNardo, CLU®, ChFC®, CFP®, MSFS®, Partner
Paul D. Tortorella, Partner

FINANCIAL SERVICES EXPERIENCE
Kevin, 20 years
Stephen, 17 years
James, 17 years

ASSETS UNDER MANAGEMENT
$1+ billion

COMPENSATION METHOD
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PRIMARY CUSTODIAN FOR INVESTOR ASSETS
Accounts held at Northwestern Mutual Investment Services LLC, an introducing broker-dealer, member FINRA, SIPC. Accounts carried, and all transactions executed, cleared and settled through Pershing, A BNY Mellon Company, member FINRA, NYSE and SIPC.

PROFESSIONAL SERVICES PROVIDED
Financial planning, investment-advisory, risk-management and money-management services

MINIMUM FEE FOR INITIAL MEETING
None required

MINIMUM NET WORTH REQUIREMENT
$1 million

EMAIL
kevin.luchetta@nm.com
stephen.schwartz@nm.com
james.dinardo@nm.com

WEBSITE
www.pioneer.financial

ILLUSTRATION BY KEVIN SPROULS

Clients do a fairly good job of accumulating wealth. Whether they've sold a business or had a successful executive career, clients—especially when they've had the right guidance from advisors—save and invest money over their working careers.

But, then, *in a single day,* a client's main financial goal changes from accumulating wealth to needing to convert those funds to an income stream that will last for the rest of his or her lifetime!

Clients and their advisors often do a lousy job transitioning from wealth accumulation to retirement income.

In our firm's case, we plan carefully, using a retirement-income philosophy that starts by dividing a client's wealth-accumulation assets into three buckets (i.e., portfolios).

Bucket one equals two years of the retiree's living expenses and is held in cash or cash equivalents. Subtract from that amount any certain, nonportfolio sources of income such as pensions and social security payments.

Bucket two represents money the client is likely to spend over the next 10 years and is primarily focused on generating income and yield. All of the income and appreciation produced by bucket two is directed to bucket one, until bucket one has two years' worth of the retiree's expenses.

Our final advice, and probably the part that is the most misunderstood, is that we recommend bucket three for assets with a time frame of greater than 10 years. Bucket three is the most misunderstood because retirees often do not want to take market risk. So, either intentionally or not, they trade market risk for the "death by a thousand cuts: inflation risk."

Cash accounts and even fixed-income assets have historically struggled to beat inflation. We hope that our retirees have a 30-year retirement, with money left over for the next generation (dependent upon estate-planning goals). Thus, inflation is as concerning as market volatility for retirees.

Bucket three, then, focuses on capital appreciation, with a rebalancing strategy where all capital appreciation flows to bucket two until bucket two has enough assets to generate the income needed to fill bucket one!

In addition to the bucket approach, we also recommend that clients—during the wealth accumulation years—develop a "tax-balanced balance sheet." Retirees who can take distributions from post-tax assets before accessing pre-tax assets (as opposed to withdrawing solely from pre-tax assets) allow their pre-tax assets to continue to be invested and grow, which can increase a retiree's overall income! So, we recommend—during the wealth accumulation years—that retirees save in both pre-tax and post-tax investment vehicles.

> "We plan carefully, using a retirement-income philosophy that starts by dividing a client's wealth-accumulation assets into three buckets (i.e., portfolios)."

The distribution phase of life can be daunting and filled with many pitfalls. In addition to the risks we have already mentioned (inflation, market volatility, longevity and liquidity), there are rising healthcare costs, long-term care events, social security and tax-bracket mismanagement.

It is our responsibility as advisors to help our clients navigate these risks and help provide a steady income stream that lasts throughout their lifetime. ●

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ABOUT US

PIONEER FINANCIAL AT NORTHWESTERN MUTUAL PROVIDES FINANCIAL SERVICES TO HIGH NET WORTH AND EMERGING HIGH NET WORTH INDIVIDUALS, FAMILIES AND BUSINESS ENTERPRISES. Pioneer Financial's team of 20 associates/staff serve clients nationwide from their Park Avenue office in New York City. Kevin R. Luchetta, Stephen A. Schwartz and James L. DiNardo are wealth-management advisors and CERTIFIED FINANCIAL PLANNER™ practitioners. The practice is focused on assisting clients through comprehensive financial planning that includes asset management, retirement funding, risk management, estate preservation and distribution. ●

Kevin R. Luchetta, CFP®, AEP®
Partner

Stephen A. Schwartz, CFP®, AEP®
Partner

James L. DiNardo, CLU®, ChFC®, CFP®, MSFS®
Partner

Paul D. Tortorella
Partner

Pioneer Financial at Northwestern Mutual – Park Avenue
245 Park Avenue, Suite 1800
New York, NY 10167
Tel. 646.459.6366

kevin.luchetta@nm.com
stephen.schwartz@nm.com
james.dinardo@nm.com
www.pioneer.financial

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