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## The Bucket Brigade

By Kerry Pechter    Thu, May 3, 2018

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*Time-segmentation stands at the intersection of insurance and investments, of modern portfolio theory and asset/liability matching, and of behavioral finance and quantitative analysis.*

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For advisors who build lifelong income streams out of insurance and investment products, the best possible planning method may be time-segmentation, or “bucketing.” There’s no clear academic basis for that claim, but it feels accurate.

There’s no proof that bucketing works either, for that matter, but some advisors swear by it. It seems to work especially well for “constrained” retirees who, rich or poor, don’t have quite enough savings to finance the type of retirement lifestyle they’ve imagined.

“The Constrained Investor,” aptly, was the title for a conference about bucketing held this week at the historic Omni Parker House Hotel in Boston. More than 100 decumulation-oriented advisors from all over the US gathered there to learn how other advisors have used time-segmentation to improve and expand their practices.

The conference was hosted by Wealth2k, the company that markets and supports a segmented planning method called Income for Life Model (ILFM). Securities America, a broker/dealer based in Omaha that makes IFLM available to the 2,800 or so advisors who use its platform services, sponsored the meeting.

At its core, bucketing may rely more on behavioral finance than on financial engineering. A quantitative analyst might dismiss it as just a “mental accounting” technique for unsophisticated clients. But for kitchen table advisors, that’s precisely its appeal. It helps advisors divide retirement into graspable chunks of time and money and keeps clients calm during volatile markets.

### **Bucket strategies**

A quick definition of time-segmentation might be useful here, especially for advisors who use systematic withdrawals from total return portfolios to generate income for retired clients. Instead of organizing a client’s assets into types of accounts (qualified vs. non-

qualified vs. Roth) or into classes (stocks, bonds and cash), a bucketer assigns assets to time periods.

A typical bucketing practice would involve three to seven buckets, whose assets will be liquidated for income at certain dates during retirement. Practitioners would put cash equivalents or short-term bonds in near-term buckets, intermediate bonds in buckets that won't be tapped for three to five years, and balanced funds or equities in distant buckets. The assumption is that the assets in each bucket will appreciate over time at historical rates; they rarely do, so the advisor needs to monitor their progress and tweak them from time to time.



From left: Marc Geels, Sam Marrella, John Shrewsbury and Albin Campbell.

Here's a real-world example offered by conference speaker John Shrewsbury, owner of GenWealth Financial Advisors, a 12-advisor, \$400 million practice in Little Rock, Arkansas. He created a series of six five-year buckets for a couple with \$1 million in savings. He put about \$144,790 in bonds of under five years duration in Bucket One, \$137,739 in bonds of slightly longer duration in Bucket Two, and \$113,642 in the diversified Franklin Income Fund in Bucket Three. Buckets Four, Five and Six received \$89,435, \$64,288 and \$73,600, respectively, in LPL Model Wealth Portfolios.

The remaining \$377,000 was used to buy variable annuities with living benefits, to supplement the guaranteed income provided by Social Security. Shrewsbury said he buys most of his variable annuities from Jackson National, Lincoln Financial and Prudential.

The final step is to put money in the client's hands. "We set up a joint brokerage account for the husband and wife," Shrewsbury said. "Every year we distribute a year's worth of cash to the brokerage account and then every month send money from the brokerage to the checking account."

### **Structure to darkness**

But the meeting, and bucketing itself, had as much or more to do with marketing and client relationships than it did with investments or insurance. Bucketing seems to lend structure to the retirement journey, which for retirees can feel like rowing across a lake in utter darkness, not knowing how near or far the other side is.

The successful advisors who spoke at the conference—Marc Geels of Sioux City, Iowa, Sam Marrella of Reading, Pa., Albin Campbell of Detroit, Mich., and Shrewsbury—clearly owed much of their success to marketing and brand-building activities. They shared their techniques with attendees.

Geels, the owner of EFS Group Wealth Management and an IFLM user since 2006, had the audience scribbling notes as he rattled off a long list of creative marketing practices. At Christmas, he buys 100 poinsettias and gives them to clients. He hosts wine tastings, document shredding parties, golf outings, and meet-ups for car collectors. Don't bother hosting seminars in June, July, August or December, he said.

For \$2,000 a month, he buys four half-hour slots of radio time for a Sunday morning talk show. Twenty-eight of his top clients sit on his Client Advisory Board, serving three year terms and meeting for dinner twice a year. "It's pretty tough to leave your advisor if you're part of his board," Geels said, a comment that drew murmurs of approval from the crowd.

Albin Campbell said he specializes in the "constrained mass affluent space," so for decades he's been giving talks at community banks, credit unions, United Auto Worker meetings, at workplaces. "The unions and the employers market for me, and make sure people show up for me," he said. Sam Marrella writes books. Shrewsbury does radio, podcasts, TV, articles and events. "We're marketers, not investment advisors," he said.

### **Be an educator**

Bucketing also seems to help advisors tell stories that illustrate complex financial concepts and foster the kind of trust that ultimately helps close sales. Perhaps because "bucketing" itself is a metaphor, it leads easily into the creation of new metaphors.

Perhaps the most common metaphor associated with time-segmentation is the house metaphor. Shrewsbury likes to weave stories around the importance of establishing a “foundation” of safe income on which a “living room” and ultimately an “attic” can be built. “The attic,” he said, “is where we store things that we intend to leave behind.”

“IFLM allows me to tell a story,” said Campbell. “I like a structured presentation, and IFLM gave me one. It makes me look bigger than I am. My story is Social Security plus IFLM.” He finds that people are looking for an educator and he’s able to position himself as one.

“I talk to clients about how I have this huge platform at my disposal, with 10 strategists I can call on,” said Shrewsbury. I tell them I’m the conductor of the orchestra, and I try to make the strings, the brass and the drums all sound good together. I say, ‘I want to be the conductor of the orchestra of your retirement.’” He likes to hand new clients a leather-bound binder and say, “Here’s a three-ring binder for the three-ring circus of your retirement.”



David Macchia

### **Anti-commoditization cloak**

Macchia, whose company, Wealth2k, licenses the IFLM method to broker-dealers and supports it with a variety of multi-media marketing tools for advisors, likes to position retirement income planning and bucketing as ways for advisors to differentiate themselves from competitors and add value in a world where investment advice is becoming a robo-driven commodity.

“Time segmentation combined with flooring creates the ideal income strategy for constrained investor retirees,” Macchia said. “This is what Wealth2k calls ‘Hybrid Time-Segmentation.’” Millions of constrained American investors, who collectively have about \$6 trillion in savings, suffer from “income disease,” he told the bucketers filling the Parker

House ballroom. “They have no plan, no clue how much they can safely spend in retirement, and therefore have little chance of having a consistent standard of living in retirement. You have the cure to income disease. It’s the signature business opportunity of our careers.”

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