MEMBER GUIDE

BUCKETING STRATEGY: HELP TO MANAGE YOUR RETIREMENT SAVINGS

When you retire, your super savings or other assets may need to support your lifestyle for 30 years or more.

Managing your retirement savings can feel overwhelming, with decisions to make on things like pension amounts, payment frequency and managing your investment options. Adopting a **bucketing strategy** can help make it a little easier to manage your retirement savings and support your lifestyle.

A bucketing strategy involves splitting your retirement savings into 'buckets' which have a different purpose, different investment strategy and different risk profile (the expected variation in returns from year-to-year).

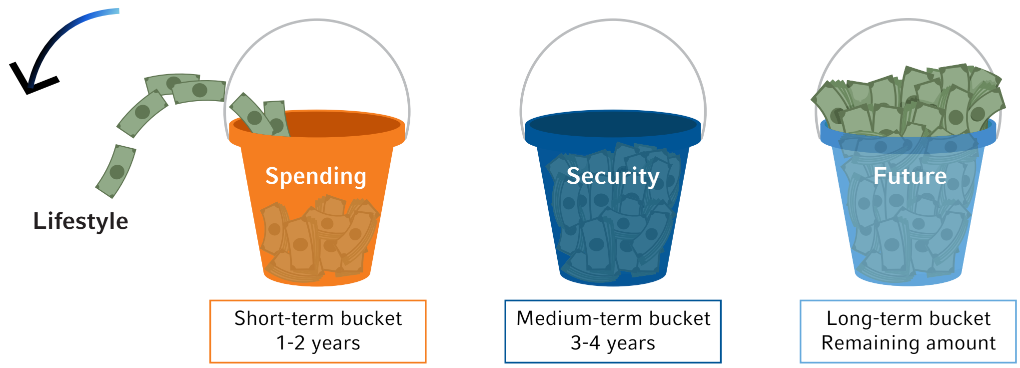
WHY ADOPT A BUCKETING STRATEGY?

Many Australians worry about **how** to manage retirement savings to support their goals and last as long as possible, especially as investment markets are prone to go up and down over time. A bucketing strategy can help by providing **an easy to understand** and **simple to implement** approach to managing your retirement savings.

Bucketing strategies can help:

- Give you confidence your 'spending' money is safe – this means easy access to your 'short-term' bucket for regular payments like groceries, bills and petrol.
- Help protect your long-term savings - by separating the short-term and longer-term buckets – it reduces your chances of needing to access the savings you still have in more growth-focused investments – which can be risky during market downturns. The aim is to keep those buckets invested for medium and long-term growth, to support you later in retirement.
- Reduce the emotional stress of market ups and downs - a big share market fall can make even confident retirees nervous – but by keeping your spending bucket separate and invested in low-risk investments like cash – it allows you to keep the other buckets invested, with time to recover. It removes the panic that can lead to poor decisions and reduces the chances of 'locking in' investment losses.

HOW DOES A BUCKETING STRATEGY WORK?



The bucket money levels indicate the importance of having a good portion of your investments in the 'Future' bucket. With higher expected returns and a longer investment timeframe, this bucket can help ensure your money lasts the distance.

The easiest way to understand how a bucketing strategy works is to think about **three separate buckets or pots of money**, each with a different job to do

- The **3-bucket strategy** is a simple way to organise your money into short, medium and long-term groups for investment and access purposes. It's up to you how much you put in each bucket and how each bucket is invested – below is a commonly used approach.

1. **'Spending' bucket:** Short-term (1-2 years' worth of spending)

- This bucket ensures that funding for your day-to-day expenses is considered and that regular payments keep flowing, no matter what the market is doing.
- This would usually be invested in the lower-risk Australian Cash and/or Australian Floating Rate option/s - where returns will likely be stable regardless of how investment markets are performing.

2. **'Security' bucket:** Medium-term (3-4 years' worth of spending)

- This bucket is the 'back-up' and used to refill your 'Spending' bucket on a regular basis or when needed
- This is usually invested in a mix of predominately lower-risk or conservative investments - like the diversified Defensive option, that usually produce a steadier return, but with slightly more risk than cash

3. **'Future' bucket:** Long-term (Remaining amount)

- This would usually be your largest bucket, with the remainder of your retirement savings - invested for long-term growth to support your spending needs in the later years of your retirement
- Here, you would usually target a mix of growth-orientated investments –with higher volatility and risk, but also with higher expected returns - to help your savings grow, and to last the distance. Options like the diversified Growth or Balanced Growth could be used for this bucket.

HOW DO YOU SET UP A BUCKETING STRATEGY?

Step 1: Pension payment: Determine how much money you need to support your spending/lifestyle needs and preferences over the next 1-2 years. There's a handy **budget planner** on the MoneySmart website that might help you understand your current financial needs.

Keep in mind the legislated 'minimum' amount to be withdrawn as an income from your pension each year is not intended to be a guide for what is actually suitable for your circumstances

Step 2: Investment strategy: It's up to you what investments you choose for each bucket, and what portion of your retirement savings you put into each bucket.

Step 3: Payment strategy or "Payment order": To implement a bucketing strategy, it is important that pension payments are made from the Spending bucket first, and only from the Security bucket if required.

Step 4: Investment rebalancing: A key component of a bucketing strategy is to regularly rebalance your buckets to ensure your spending bucket is refilled regularly, in a systematic way. We offer an automatic quarterly rebalancing service that will rebalance your buckets.

Step 5: Review and adjust: as your circumstances, preferences and needs change. You can nominate to make changes to things like investment options and payment details at any time. Either by completing the Change forms or through the online member centre.

BUCKETING STRATEGY IN ACTION

Consider Simon*, who has just retired with $400,000 in retirement savings. He has budgeted $24,000 p.a. from his super to support his lifestyle. He will separately receive the government Age Pension. Simon wants to open an iQ Retirement account based pension and adopt a bucketing strategy to manage his retirement savings.

Here are the steps Simon will take:

Step 1: Nominate a pension amount

Simon has chosen an annual pension payment of $24,000, which he wants to receive monthly - being $2,000 per month. Simon also nominates to increase his pension payments by 2% each year, to help ensure he can keep his preferred lifestyle as the general cost of living increases.

In the ***iQ Retirement application form***, Simon would do the following.

6. PENSION PAYMENTS

a. My nominated pension payment is (mark one box only):

- [ ] Specific dollar amount
  Specific annual dollar amount $ ________ .00 (before tax), pro-rated for remaining days in the year.
- [ ] Fortnightly dollar amount
  Specific fortnightly dollar amount $ ____ .00
- [X] Monthly dollar amount
  Specific monthly dollar amount $ 2000 .00

How much do you want this amount to increase by each financial year?

[ ] None [ ] 1% [X] 2% [ ] 3% [ ] 4% [ ] 5% [ ] Consumer Price Index (CPI)

Step 2 & 3: Investment and pension payment strategy

Simon chooses to set up his bucketing strategy like this:

Spending Bucket - 2 years' worth of pension payments, or $48,000 (this is 12% of his retirement balance). He chooses to invest this in the Australian Cash option.

Security Bucket - 4 years' worth of pension payments or $96,000 (this is 24% of his balance). He chooses to invest this in the diversified Defensive option.

Future Bucket – This will be the remainder of his retirement savings, being $256,000 (64% of his balance). He chooses to invest this in the diversified Growth option.

As an iQ Retirement member, Simon also receives a linked (but separate) contribution account which he can use to receive other super contributions or rollovers. He does not allocate any of his retirement savings to the contribution account when applying for his pension account, but nominates the Defensive investment option in case he uses it in the future.

Simon would fill out the form as follows:

My investment choice and payment strategy
(continued over the page):

Please complete all three columns.

Diversified options	Contribution Account	Pension / Transition to Retirement Account	Payment Strategy
Defensive	100.00%	24.00%	.00%
Diversified 50	.00%	.00%	.00%
Balanced Growth	.00%	.00%	.00%
Growth	.00%	64.00%	.00%
High Growth	.00%	.00%	.00%
Cash and Fixed Income sector options[1]			
Australian Cash	.00%	12.00%	100.00%
Australian Floating Rate	.00%	.00%	.00%
Shariah[1,4]			
Salaam Defensive (Shariah Compliant)	.00%	.00%	.00%
Salaam Balanced (Shariah Compliant)	.00%	.00%	.00%
Salaam Growth (Shariah Compliant)	.00%	.00%	.00%
Total allocation =	100.00%	100.00%	100.00%

Step 4: Investment rebalancing

Activating investment rebalancing is important to enable the bucketing strategy. Simon would do this by crossing the following box (as shown below).

Do you want to automatically rebalance your investments?

This is only relevant to you if you have selected more than one investment option. If you select to rebalance your investments, we reset your account balance quarterly on the 21st of March, June, September and December, to match the original investment strategy you selected.

Automatic rebalancing will apply to both your Contribution and Transition to Retirement/Pension accounts.

I would like to rebalance my investments quarterly:

☒ Yes ☐ No

Step 5: Review and adjust.

Simon marks his calendar to review and adjust his bucketing strategy in 6 months-time.

Advice that's right for you

Good financial advice is about making the most of what you have to help achieve your goals. That's what we offer—general information, personal advice over the phone, Retire Ready meetings (often at no cost) or comprehensive personal advice (complimentary first meeting).

Find out more at
russellinvestments.com.au/advice

We’re here to help

If you have any questions, please contact us:

- call 1800 555 667 (Monday to Friday 8.30am to 5.30pm AEST)
- email iq@russellinvestments.com.au
- visit russellinvestments.com.au/retirement

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