

DURABLE CHOICE WEALTH

RETIREMENT DECISION SERIES



2026 U.S. ACTION EDITION

The Retirement Portfolio

Turn the Assets You Already Own into Reliable Spending Through Bull Markets, Bear Markets, Inflation, and the Long Middle Years

DURABLE CHOICE WEALTH

EDUCATION · ACTION · REVIEW

What this book is designed to produce

This book helps you turn scattered accounts and products into a written retirement-income system: an after-tax spending gap, an allocation range, rules for different markets, a withdrawal order, and a plan another person can operate.

The standard is not whether a recommendation sounds reasonable. The standard is whether another adult can identify the inputs, repeat the calculation, see what would change the answer, and carry out the next step. When a required document is missing, the honest answer is unknown.

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Reader note

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Introduction: Your portfolio is not a score

Most people meet investing as a contest. They learn to compare returns, rank funds, praise winners, and feel embarrassed by cash. That contest can be useful while a paycheck is doing the real financial work. It becomes dangerous when the portfolio must pay the electric bill.

Retirement changes the assignment. The question is no longer, “What return did I earn?” It is, “Can this household keep paying for a life when markets, taxes, health costs, and family needs refuse to arrive in a convenient order?”

A portfolio can beat its benchmark and still fail that test. It can own excellent funds but hold the wrong amount of spendable money. It can be tax-efficient in isolation and expensive as a household. It can be diversified across ticker symbols while depending on one economic bet. It can be mathematically adequate and too complicated for the spouse who inherits it.

This book treats a retirement portfolio as a payment system.

That does not mean abandoning growth. A person who retires at sixty may be asking money to work for thirty-five years. Inflation can do more damage over that span than one ordinary bear market. Stocks remain necessary for many households precisely because retirement is long. But growth has to live beside near-term spending, taxes, insurance, and the possibility that a bad market arrives before the plan has had time to build a cushion.

You will not find a magic allocation by age in these pages. Age matters, but it is not enough. Two sixty-five-year-olds can require opposite portfolios. One may have Social Security and a pension covering every

essential expense. The other may need the portfolio for nearly every dollar of food, housing, and health care. The first can tolerate more market risk even if she dislikes it. The second may love stocks and still lack the capacity to take that risk.

We will use age only after answering harder questions:

1. What must the portfolio pay, and when?
2. Which expenses can be reduced without harming the household?
3. Which income is reliable, after tax, and which is merely expected?
4. How much loss can the plan survive before it is forced to sell?
5. Who can operate the system if the person who built it cannot?

Those questions lead to a portfolio that can be defended in a bull market, a bear market, an inflation shock, a recession, or a decade that refuses to fit a label. The market response will be explicit. It will also be narrower than the financial media usually suggests. A bear market is not permission to redesign the household. A bull market is not evidence that risk has disappeared. Inflation is not a command to buy every asset marketed as an inflation hedge. Each environment changes specific decisions - where withdrawals come from, whether to rebalance, which risks deserve funding - not the purpose of the plan.

Four composite households will stay with us. Nina Patel is forty-nine, well paid, and far more exposed to her employer than she realizes. Mark and Elise Brennan are close enough to retirement that the first bad sequence matters more than the average return. Ruth Alvarez is a widow whose tax location is working against her charitable intentions. Howard and Lena Cho have ample assets and a system only one spouse understands.

They are not success stories. They are working files. Sometimes their first idea will fail. When it does, we will show the arithmetic and change the decision.

Choose the door that matches today's problem

This book is designed to be used out of order after the first four chapters. A reader still earning and saving should begin with the household gap, loss capacity, and written policy, then move to stocks, account location, and concentration. A reader within five years of retirement should add cash, bonds, the first-five-years bear-market drill, withdrawals, taxes, and housing. A reader already withdrawing should begin with the annual distribution ticket, guardrails, tax calendar, and survivor operation. A reader helping a parent or spouse should start with housing, care reserves, fraud controls, delegation, and the thirty-day absence drill.

Do not read a chapter as permission to buy its subject. The annuity chapter does not recommend an annuity. The alternatives chapter does not require gold, real estate, or commodities. The bond chapter does not say that every bond is safe. Each chapter asks what job exists, whether the household already solved it, and what the proposed asset costs in risk, tax, liquidity, work, and complexity.

Know when the investment question is the wrong question

No asset allocation can make an unfunded spending promise safe. If essential spending requires a persistent gross draw that fails the stress tests, the answer is not a higher-yield fund. The household must change one or more structural inputs: work income, retirement date, benefit timing, debt, housing, family transfers, essential cost, or the promise to leave money behind.

The same is true when the money exists but cannot be operated. An inaccessible employer plan, an unsigned power of attorney, a spouse who cannot authenticate into accounts, or a home that cannot be sold during a care crisis is not fully available wealth. This book treats access and authority as financial facts, not administrative details.

Readers with modest balances should not mistake the case households for an admission price. The method begins with the gap, not net worth. A household with limited assets may gain more from benefit accuracy, debt repair, housing decisions, public programs, and two additional years of

earned income than from any investment improvement. The purpose of the calculation is to reveal that honestly while choices still exist.

The work begins before choosing an investment.

Part I - What the portfolio must pay

Chapter 1: The number before the allocation

Mark Brennan had three account statements open on the kitchen table and a yellow legal pad beside them. At the top of the pad he had written “60/40?” and underlined it twice.

It looked like a reasonable place to begin. Mark was sixty. His wife, Elise, was fifty-seven. Together they had \$1.48 million in cash and investments. They hoped to leave work in three years. A balanced portfolio sounded responsible, and sixty percent stocks with forty percent bonds was the sort of answer a person could implement before dinner.

It was also premature.

Their allocation could not be evaluated until we knew what it was being asked to do. A 60/40 portfolio supporting a \$35,000 annual gap is a different machine from a 60/40 portfolio supporting a \$95,000 gap. The labels are identical. The failure risk is not.

Mark and Elise had been using a familiar shortcut. Their investment balance was about seventeen times the \$88,800 they expected to spend on core living and travel. That sounded close to the “twenty-five times expenses” rule they had heard, especially because Social Security would arrive later. They wanted to know which funds would close the difference.

The useful answer was not a fund. It was a cash-flow map.

Put every number on the same side of tax

Households often compare after-tax spending with gross income. This creates a gap that looks smaller than it is.

Suppose a household spends \$80,000 after tax and expects \$40,000 of gross Social Security and pension income. The portfolio gap is not

automatically \$40,000. Some of the benefit or pension may be taxable. A pretax IRA withdrawal used to fill the remaining gap may itself create tax. The portfolio might need to distribute \$45,000, \$48,000, or more to leave \$40,000 available for spending. The exact amount depends on the return, account source, deductions, capital gains, Social Security taxation, state rules, and Medicare income surcharges.

The rule is simple even when the tax return is not:

Compare after-tax spending with after-tax reliable income, or compare gross spending plus tax with gross income. Never mix the two.

For a first pass, write:

gross portfolio distribution = after-tax spending gap + tax created by funding the gap

That equation is circular because the withdrawal can create the tax. A spreadsheet or tax calculator solves it by iteration:

1. Estimate the after-tax gap.
2. Choose the account or tax lot that will fund it.
3. calculate the federal and state tax caused by that distribution;
4. increase the distribution by the unpaid tax;
5. recalculate until the change is immaterial.

The answer is not “withdraw spending divided by one minus your marginal bracket.” That shortcut assumes every dollar is taxed at one rate. Retirement income often crosses ordinary brackets, capital-gain bands, Social Security inclusion thresholds, premium-credit rules, and Medicare surcharge thresholds. One withdrawal can be partly basis, partly gain, partly ordinary income, or tax-free qualified Roth money. The source matters.

Four numbers, not one budget

Mark and Elise's budget became useful only after it was separated into four categories.

Essential recurring spending was the amount they intended to protect in a bad market: food, utilities, property costs, insurance, transportation, basic home maintenance, mortgage payments, and ordinary health spending. Their current estimate, excluding income tax, was \$70,800 a year.

Flexible spending was real but adjustable: major travel, gifts, restaurant upgrades, and elective projects. Their target was \$18,000. Calling it flexible did not mean pretending it had no value. It meant they would rather postpone a trip than sell stocks after a 35% decline.

Irregular reserves covered expenses that did not belong to an average month: a roof, a vehicle, dental work, family travel during illness, and the deductible or coinsurance that accompanies a bad health year. An annual budget that ignores these costs understates the job of the portfolio. Mark and Elise assigned \$12,000 a year to sinking funds, with the understanding that the cash would not be spent evenly.

Reliable income included only payments that were contractually or legally supported and modeled after tax. Future portfolio return was not income in this definition. A hoped-for inheritance was not income. Home equity was not income while they planned to remain in the home. Social Security was included only from the chosen claim date and at the estimated benefit on their actual SSA records.

Their first-year retirement need could now be written:

required household cash = essential spending + flexible spending + reserve funding + taxes

portfolio distribution = required household cash - reliable after-tax income

The equation is deliberately unglamorous. It is also the foundation for every later allocation decision.

The bridge is where plans reveal themselves

Mark intended to leave at sixty-three. Elise would then be sixty. Their Social Security estimates were meaningful, but neither benefit had to begin when work stopped. Medicare would not begin for Elise for five years. Their mortgage would continue for roughly two years after retirement. The early retirement period therefore had a larger portfolio demand than the later period.

This is why one “annual retirement expense” is not enough. We build the plan in phases.

For Mark and Elise, the first map looked like this:

Phase	Ages	What changes	Portfolio pressure
Bridge 1	Mark 63 - 64, Elise 60 - 61	no wages; both need non-Medicare or mixed coverage; mortgage continues; benefits may be delayed	highest and least certain
Bridge 2	Mark 65 - 66, Elise 62 - 63	Mark reaches Medicare; Elise still needs other coverage; Social Security choice remains open	still high
Transition	Mark 67 - 69, Elise 64 - 66	FRA decisions; Elise reaches Medicare at 65; mortgage is gone	falls in steps
Mature retirement	both 67+	both Medicare-eligible; benefits in payment under chosen strategy	lower recurring gap
Later life	mid-70s onward	RMDs, survivor risk, potential care and home-support costs	tax and care risk rise

The dates are facts. The dollar amounts remain scenarios until insurance quotes and benefit records are entered.

This is an important editorial and planning discipline: an unknown is not zero. If their pre-Medicare health cost has not been priced, the plan does not “exclude health care for simplicity.” It contains a visible blank and a range that must be replaced.

Assume, only for illustration, that their first full retirement year requires \$70,800 of essential spending, \$18,000 of flexible spending, and \$12,000 of reserve funding. That is \$100,800 before income tax and before settling the health-insurance input. If neither Social Security benefit has started and there is no pension, nearly all of that amount comes from the portfolio.

Against \$1.48 million, a \$100,800 gross distribution would be 6.81% before any allowance for tax or an unpriced health premium:

$$\$100,800 \div \$1,480,000 = 6.81\%$$

That is not a forecast of failure. It is a warning that the bridge, as first described, is doing too much. A historical safe-withdrawal slogan cannot rescue an incomplete cash-flow map.

Now change the sequence rather than the investments. Suppose the couple enters retirement with additional saving over three years, funds several bridge expenses in cash and short Treasuries, eliminates the mortgage on schedule, trims flexible spending during the two most expensive health-insurance years, and later adds Social Security. The lifetime plan can be viable even though the first year's withdrawal percentage is high. Conversely, a low first-year percentage can be misleading if large care or housing costs have been omitted.

The portfolio must be judged across the schedule, not by one fraction.

What the “25 times” rule leaves out

Multiplying expenses by twenty-five is equivalent to a 4% initial withdrawal rate:

$$\text{portfolio target} = \text{annual portfolio need} \div 0.04$$

That can be a useful screening calculation. It is not a retirement price tag.

First, use the portfolio need, not total spending. If Social Security, a pension, or an annuity reliably funds part of the household, multiplying all expenses overstates the required investable balance.

Second, the need changes. A mortgage can end. Medicare can replace a pre-65 policy. One spouse can die, reducing some expenses while also eliminating the smaller Social Security check and perhaps part of a pension. Travel can fall while care costs rise.

Third, taxes depend on the accounts funding the withdrawal. One million dollars in a traditional IRA is not economically identical to one million dollars in Roth and taxable assets.

Fourth, time matters. A forty-nine-year-old planning a very early exit and a seventy-seven-year-old with an income floor do not have the same horizon or sequence exposure.

Fifth, the withdrawal rule matters. A household willing to cut discretionary spending after poor returns can generally support a different starting plan from a household demanding an inflation-adjusted amount every year regardless of markets.

Use the multiple as a smoke alarm, not a building plan.

Measure the floor before the ceiling

The strongest portfolios begin by deciding what must not be cut.

For Mark and Elise, essential spending of \$70,800 was not perfectly fixed. Food could be adjusted. A car could last another year. Some home maintenance could be scheduled. But the essential category represented the life they were unwilling to jeopardize in an ordinary bear market.

The coverage ratio makes that visible:

essential-income coverage = reliable after-tax income ÷ essential after-tax spending

A ratio of 1.00 means reliable income covers all essential spending. Below 1.00, the portfolio must permanently support part of the floor. Above 1.00, the portfolio mainly funds flexible goals, reserves, taxes, and legacy.

The ratio changes with age. Before either Brennan claims Social Security, it may be near zero. After both benefits begin and the mortgage ends, it may rise sharply. This change is more informative than saying they are “moderate investors in their sixties.”

It also changes the meaning of bonds and annuities. If reliable income covers only half of essentials, buying additional guaranteed income or constructing a bond/TIPS ladder can protect the missing floor. If reliable income already exceeds essentials, buying more guaranteed income may sacrifice liquidity for a problem the household has already solved. The product cannot be evaluated without the gap.

Convert the map into portfolio jobs

Only now can we ask what the assets should do. The Brennan portfolio has at least four jobs:

1. Pay near-term net withdrawals. Money required on a known date should not depend on selling a volatile asset at a favorable price.
2. Protect the essential gap. High-quality bonds, TIPS, and in some cases insured or guaranteed income can support the portion of essentials not covered by Social Security and pension income.
3. Grow future purchasing power. Diversified equities and, selectively, other real assets address a retirement measured in decades.
4. Absorb surprises without dismantling the first three jobs. Cash reserves and flexible spending rules keep a roof, a family need, or a market decline from becoming the same emergency.

These are economic jobs, not four mandatory account buckets. A Treasury bond can mature into next year's spending while also reducing portfolio volatility. Social Security is not an account, yet it behaves like inflation-adjusted lifetime income. A taxable stock fund provides growth and may also be the best source for a planned gift because of its basis. The point is to assign responsibility, not to multiply labels.

Your action: build a seven-line funding map

Do not choose funds after reading this chapter. Complete these seven lines first, using annual amounts on the same tax basis.

1. Essential recurring spending: _____
2. Flexible spending: _____
3. Annual sinking-fund contributions for irregular costs: _____
4. Federal and state tax estimate: _____
5. Reliable income already in payment, after tax: _____
6. Reliable income beginning later, with start dates: _____
7. Unpriced or unresolved items: _____

Then build one row for every year from the planned work exit through age seventy-five, plus later-life rows at eighty, eighty-five, ninety, and ninety-five. Record the age of each spouse, work income, Social Security, pension, Medicare status, mortgage status, essential spending, flexible spending, tax, and required portfolio distribution.

Where you do not know a number, write “unknown” and assign an owner and due date. “Call insurer by November 15” is a planning action. Zero is a false answer.

Finally, calculate two figures for each phase:

gross withdrawal rate = gross portfolio distribution ÷ starting investable assets

essential coverage = reliable after-tax income ÷ essential after-tax spending

The first tells you how hard the portfolio is being asked to work. The second tells you how much of the household's floor depends on markets. Together they give allocation a purpose.

Mark crossed out “60/40?” on the legal pad. Under it he wrote three dates: work exit, Mark's Medicare, Elise's Medicare. Then he added the two Social Security claim dates they still needed to test.

The allocation would come later. For the first time, it would be an answer to a defined question.

Chapter 2: Build the household income floor

Ruth Alvarez did not need more yield. She needed to know which checks would still arrive if the stock market closed for a month and she did not open an account statement.

At sixty-nine, Ruth received \$38,400 a year from Social Security and \$12,600 from a small pension. She had \$910,000 in investments and a paid-off home. On paper she looked secure. Yet every market decline made her wonder whether she should sell stocks, buy an annuity, move everything to CDs, or stop helping the church pantry.

The anxiety did not come from a shortage of assets. It came from a plan that had never separated the floor from everything built above it.

An income floor is the reliable, durable cash flow assigned to the expenses a household is unwilling or unable to cut. It is not the same as total income. It is not a collection of high-dividend funds. It is not a promise that every dollar will rise with inflation. It is a deliberate match between essential outflows and dependable resources.

For Ruth, the work began with two columns.

Essential annual outflow	2026 amount
Housing tax, insurance, association, maintenance reserve	\$16,200
Food and household supplies	\$10,800
Utilities and communications	\$4,800
Transportation	\$6,600
Medicare and other health spending	\$11,400
Personal, basic travel and contingency	\$7,800

Essential annual outflow	2026 amount
Essential total before income tax	\$57,600

Her reliable gross income was \$51,000. That did not mean her floor gap was \$6,600. Social Security and pension payments did not arrive on the same tax basis as her spending. The pension was ordinary income. Part of Social Security could become taxable when combined with pension income, IRA distributions, interest, and capital gains. Her Florida residence removed state individual income tax from this illustration, but not federal tax or the other costs of living there.

So we calculated two versions of the floor.

The cash floor asked whether scheduled payments plus a planned portfolio distribution could pay essential bills during the year.

The economic floor asked whether those payments were durable, inflation-aware, and survivable after a spouse's death or a contract change.

Ruth's cash floor was close to covered. Her economic floor still had work to do.

Reliable does not mean identical

Every income source carries a different promise.

Social Security is backed by federal law, paid for life, and adjusted under its cost-of-living formula. It is not a personal account balance. Future legislation remains a political risk, but the benefit is fundamentally different from a dividend declared by a corporation or a withdrawal from a mutual fund.

A pension may be backed by an employer plan and protected within a particular legal framework, but its purchasing power depends on whether it has a cost-of-living adjustment. Ruth's \$12,600 pension did not. At 3% annual inflation, its real purchasing power would be roughly three-quarters of today's amount after ten years:

real value after n years = nominal payment ÷ (1 + inflation)ⁿ

$\$12,600 \div 1.03^{10} \approx \$9,375$ in today's purchasing power

That does not make the pension bad. It means the growth portion of Ruth's portfolio has a specific job: help replace purchasing power that the pension gradually loses.

An immediate annuity can convert a premium into a contractual stream, subject to the claims-paying ability of the insurer and the chosen options. A life-only payout may be higher because payments stop at death. A joint-life or period-certain option usually pays less because it promises more. An inflation rider may start lower. Liquidity surrendered to the contract is unavailable for a roof, a move, a gift, or a better opportunity. The quote, insurer, state protections, contract language, and household need all matter.

A bond ladder is not lifetime income. It is a schedule of owned securities with known maturity values if the issuer pays as promised. A ladder can match five or ten years of a spending gap while preserving control of the principal. It does not pool longevity risk, and reinvestment after the ladder ends is uncertain.

Dividends and interest are portfolio cash flows, but they are not automatically a floor. Dividends can be cut. Bond-fund distributions change. A high distribution rate can include return of capital or compensate for credit, leverage, duration, or option risk. What matters is total return, risk, tax, and whether the underlying asset fits the household - not whether the cash arrives with the word "income" attached.

Find the uncovered essential gap

Use after-tax amounts when possible:

essential gap = essential after-tax spending - reliable after-tax income

Then calculate:

Reference form: essential coverage ratio = after-tax reliable income / after-tax essential spending.

If Ruth's reliable income after federal tax were, for illustration, \$49,200 and her essential after-tax spending remained \$57,600, the gap would be \$8,400 and the coverage ratio would be 85.4%.

$$\$49,200 \div \$57,600 = 0.854$$

That ratio tells us far more than her age. The portfolio is responsible for a relatively small part of her essential life. Most investment risk supports flexible spending, future inflation, reserves, gifts, and legacy - not next month's groceries.

Compare that with Mark and Elise in the first years after leaving work. Before Social Security begins, their reliable-income coverage could be near zero. The same 50% stock allocation would carry a very different consequence for them because nearly every essential dollar would initially depend on the portfolio.

Decide which gaps deserve guarantees

Not every gap must be annuitized or matched with bonds. The decision depends on duration, flexibility, pricing, and the household's capacity to bear market risk.

Use three tests.

1. Is the expense truly essential?

An annual family cruise may feel central to retirement, but it can be delayed after a market decline. Property tax cannot. A charitable gift can be deeply important while still having timing flexibility. Long-term-care expense may be essential if it occurs, but uncertain in timing and duration; it needs insurance, assets, housing choices, family resources, or a combination - not a fictional monthly average.

The purpose of this test is not moral judgment. It is to decide which payments must be protected before risk assets recover.

2. Is the gap temporary or lifelong?

A three-year mortgage gap can be matched with cash or bonds maturing on schedule. A lifelong shortage may be better addressed with delayed Social Security, a pension election, a commercial annuity, a lower fixed cost, or sufficient conservative assets. A temporary tool should not be asked to solve a lifelong problem.

3. What risk is being exchanged?

Moving money from stocks to a Treasury ladder reduces short-term market and sequence risk for the matched years, but it may reduce expected growth. Buying a life annuity transfers longevity and investment risk to an insurer, but gives up liquidity and creates insurer and contract risk. Keeping everything invested preserves liquidity and upside, but leaves the household responsible for market timing and longevity.

There is no risk-free choice. There is only a choice about which risk the household is best equipped to carry.

Build a ladder from dates, not from fear

Suppose Ruth wants the next five years of her \$8,400 essential gap matched without depending on stock sales. The crude method is to place \$42,000 in cash. That is understandable but ignores interest and timing.

A liability-matching calculation discounts each future gap at the yield available on the security maturing near that date:

$$\text{reserve today} = \sum [\text{gap in year } t \div (1 + \text{matching yield}_t)^t]$$

If a simplified illustration assumes a 4% matching yield and an \$8,400 payment at each year-end for five years, the present value is approximately:

$$\$8,400 \times [(1 - 1.04^{-5}) \div 0.04] \approx \$37,400$$

Actual implementation would use current Treasury, CD, or high-quality bond prices, maturity dates, taxes, FDIC coverage where relevant, and the timing of monthly withdrawals. The formula explains the job; a current quote determines the cost.

A practical ladder might hold one year of withdrawals in an insured bank account or money market vehicle selected for liquidity, then individual Treasuries, TIPS, CDs, or high-quality bonds maturing in later years. The security choice depends on tax, inflation exposure, credit, call provisions, and account location.

Do not build the ladder by selling every stock after a decline. Fund it from the policy allocation before retirement, from maturities, from excess cash flow, and from rebalancing when growth assets are above target. The ladder exists to prevent forced selling, not to institutionalize panic.

Inflation divides the floor into layers

Ruth's Social Security offers inflation adjustment under federal rules. Her pension does not. Her housing and health costs will not follow one clean national inflation number. A useful floor therefore has three layers:

1. Nominal floor: payments fixed in dollars, such as a non-COLA pension or nominal bond maturity.
2. Inflation-responsive floor: Social Security, TIPS principal adjustment, and other resources explicitly connected to inflation under their rules.
3. Growth reserve: diversified assets intended to rebuild purchasing power over long periods, with no promise of matching inflation each year.

Gold, commodities, real estate, and inflation-sensitive equities may diversify certain inflation risks. None is a contractual replacement for an essential payment due next quarter. Even TIPS can fluctuate before maturity, and their federal tax treatment differs between taxable and retirement accounts. The floor must distinguish a long-run hedge from money assigned to a date.

The survivor test changes the answer

For a married household, calculate the floor twice: both spouses alive, and each spouse surviving alone.

When one spouse dies, the household generally does not keep both Social Security checks. The survivor usually continues with the higher applicable benefit, subject to the program's rules, while the smaller check disappears. A pension may continue fully, partly, or not at all depending

on the election. Filing status can change from married filing jointly to single, compressing tax brackets and Medicare income thresholds. Housing costs rarely fall by half.

Howard and Lena Cho illustrate the danger. Their current gross reliable income is \$96,600: two Social Security benefits totaling \$67,800 plus Howard's \$28,800 pension. If Howard dies first, Lena may retain the higher Social Security amount rather than both benefits, and the pension would continue at 75%, or \$21,600, under their elected option. Her gross reliable income would therefore be materially lower even before considering tax filing status.

The correct question is not, “Are we covered today?” It is:

survivor essential gap = survivor essential spending - survivor reliable after-tax income

The portfolio must be able to fund the larger of the living-household gap and the survivor gap, or the plan must explicitly change housing or spending after the first death.

When an annuity earns consideration

An annuity belongs in the analysis when the household has a meaningful lifelong essential gap, values payment certainty, has sufficient liquid assets after purchase, and receives a competitive contract it understands. It does not belong merely because the buyer is a certain age.

Before purchasing, write down:

- premium and source account;
- payment start date and monthly amount;
- single or joint life;
- survivor percentage;
- period certain or refund feature;
- inflation or step-up provision;
- surrender rights and charges;
- commissions and embedded costs where disclosed;

- insurer financial-strength information;
- applicable state guaranty-association limits and exclusions;
- tax treatment;
- liquidity remaining after purchase.

Then compare the contract with delayed Social Security, a pension option, a bond/TIPS ladder, and keeping assets invested under a spending rule. A salesperson's payout quote is not a comparison.

Ruth did not immediately need an annuity. Her reliable income already covered most essentials, she valued liquidity, and her portfolio was large relative to the gap. Her first improvement was simpler: assign five years of the essential gap to cash and high-quality maturities, keep an inflation-aware growth allocation, and stop judging dividend yield as if it were safety.

Ruth's floor policy

Her written policy became five sentences:

1. Social Security and pension deposits pay the first portion of essential expenses.
2. Twelve months of the remaining essential gap stays in readily available cash.
3. The following four years of the estimated gap are matched with high-quality maturities.
4. Flexible travel and gifts are paid from the annual portfolio distribution only after the floor and reserve are funded.
5. Stocks are not sold solely because the market is down; withdrawals follow the cash schedule and rebalancing policy.

The policy did not eliminate uncertainty. It made uncertainty visible and assigned.

Your action: write the floor contract

List each essential expense, annual amount, inflation behavior, and whether it continues for a survivor. Then list every reliable income source with its start date, tax treatment, inflation provision, survivor provision, and counterparty.

Calculate the coverage ratio for:

- the first full retirement year;
- the year each Social Security benefit begins;
- the year the mortgage ends;
- the first RMD year;
- each spouse surviving alone;
- age eighty-five under a stated inflation assumption.

Circle the largest essential gap. Decide which portion must be matched for a fixed period and which portion is lifelong. Only then compare cash, bonds, delayed benefits, pension elections, annuities, housing changes, or additional work.

Ruth's question changed from “Where can I get more income?” to “Which part of my life still lacks dependable funding?”

The second question has an answer. The first can lead anywhere a product brochure wants it to go.

Chapter 3: Measure capacity for loss

Nina Patel described herself as conservative. Her accounts described someone else.

At forty-nine, Nina had \$752,000 assigned to retirement. About \$110,000 was employer stock. Her salary, bonus, future equity compensation, and health insurance also depended on the same company. She disliked seeing any investment fall, yet she had accepted a large concentration because it arrived gradually and felt familiar.

This is why a risk questionnaire is not a risk analysis.

Three different questions are usually collapsed into “risk tolerance”:

- Willingness: How much decline can you watch without abandoning the plan?
- Capacity: How much loss can the household absorb without cutting essential goals or selling at a damaging time?
- Need: How much investment risk must be taken to make the plan feasible?

A person can be willing but unable. A wealthy household can be able but unwilling. A household may think it needs high risk when the real problem is spending, debt, or an unrealistic retirement date. The portfolio must respect all three, but capacity is the hard boundary.

A market percentage is not a household loss

“Stocks fell 30%” does not tell you what happened to the household. We need the weighted portfolio effect and the timing of withdrawals.

For each asset class:

$$\text{loss contribution}_i = \text{portfolio weight}_i \times \text{stress return}_i$$

The stressed portfolio return is the sum of those contributions:

$$\text{portfolio stress return} = \sum(\text{weight}_i \times \text{stress return}_i)$$

Suppose, only as a stress example, a new retiree holds 65% diversified stocks, 30% bonds, and 5% cash. Test stocks at -40%, bonds at -10% during a rate-and-inflation shock, and cash at 0%:

$$0.65(-40\%) + 0.30(-10\%) + 0.05(0\%) = -29\%$$

On \$1.48 million, the modeled decline is about \$429,200, leaving \$1,050,800 before withdrawals and tax.

If Mark and Elise then require a \$100,800 gross distribution, that one-year distribution equals 9.6% of the stressed balance:

$$\$100,800 \div \$1,050,800 \approx 9.6\%$$

The exercise does not predict a simultaneous 40% stock decline and 10% bond decline. It reveals what the household would have to do if diversification offered less short-term protection than expected during the bridge years.

The next questions are operational:

- Is the first year's distribution already held outside risk assets?
- Which flexible spending will be reduced?
- When will Social Security or pension income reduce the gap?
- Does rebalancing require buying stocks, and with what cash?
- Would the couple abandon the allocation after seeing a \$429,200 paper loss?

If no one can answer, the allocation is not yet a policy.

Sequence risk is a cash-flow problem

Two retirees can earn the same average return and experience different outcomes because withdrawals make the order of returns matter.

Consider two simplified five-year paths. Both contain the same returns in reverse order:

- Path A: -25%, -5%, +10%, +15%, +20%

- Path B: +20%, +15%, +10%, -5%, -25%

Without withdrawals, the ending compound value is the same. With withdrawals, Path A forces more shares to be sold at depressed prices early. Those shares are no longer present for the recovery.

The lesson is not that retirement requires predicting the next five returns. It is that the household needs a rule for withdrawals when bad returns arrive before reliable income has started.

Sequence risk is strongest when three conditions overlap:

1. withdrawals are large relative to the portfolio;
2. a high share of the portfolio is volatile;
3. the household has little ability to reduce or postpone distributions.

That makes Mark and Elise vulnerable during their bridge. Nina, still saving and receiving a salary, experiences a decline differently. Lower prices can allow new contributions to buy more shares. Her largest immediate risks are concentration and job loss, not retirement withdrawals after a crash.

Measure capacity in dollars

Begin with the maximum tolerable consequence, not the maximum tolerable feeling.

Write the household's nonnegotiable commitments over the next five years:

- net essential withdrawals;
- taxes generated by those withdrawals;
- insurance premiums;
- debt payments;
- known major purchases;
- emergency and home reserves.

Then identify the resources that do not require a favorable stock sale:

- cash and insured deposits within applicable limits;

- Treasury or high-quality bond maturities;
- reliable income;
- contractual payments;
- planned work income;
- flexible spending that can genuinely be cut.

The forced-sale gap for year t is:

$$\text{forced-sale gap}_t = \text{essential cash need}_t - \text{reliable income}_t - \text{safe assets maturing}_t$$

If that number is positive during a severe market scenario, the household is relying on selling risk assets for essential spending. The policy must either fund the gap, reduce the spending commitment, add reliable income, change the retirement date, or knowingly accept the exposure.

Next, calculate a recovery runway:

$$\text{runway years} = \text{safe assets assigned to withdrawals} \div \text{annual net essential portfolio need}$$

This shortcut is useful only when the annual need is reasonably stable. A year-by-year maturity schedule is better when Social Security, Medicare, a mortgage, or pension changes the gap.

The runway is not a promise that markets recover within that number of years. It is the period in which the plan can avoid selling depressed growth assets for the assigned withdrawal.

Do not protect every dollar equally

A common response to risk is to move enough money to cash and bonds to cover all projected spending. For a long retirement, that can create a different failure: insufficient growth against inflation and longevity.

Divide goals by consequence.

Tier 1: Must fund. Housing, food, essential health coverage, basic transportation, taxes, and contractual obligations.

Tier 2: Strong preference. Regular travel, family gifts, home projects, replacement vehicles, and lifestyle upgrades that matter but can move in time or amount.

Tier 3: Aspirational. Large legacy targets, second homes, unusually large gifts, luxury travel, and spending that depends on favorable outcomes.

The household does not need Treasury securities for every Tier 3 dollar. It does need a credible way to keep Tier 1 from being liquidated by the market.

Concentration changes the stress test

Nina's employer stock was 14.6% of retirement assets. That figure understated her total exposure because her salary, bonus, future match, health benefits, and career prospects came from the same business.

The personal balance sheet should include human capital:

total company exposure = employer stock + unvested/expected equity + value of income dependency

The final term cannot be priced precisely, but ignoring it assigns it a value of zero. A stress test can model an event rather than pretend to value the career:

- employer stock falls 60%;
- bonus disappears;
- employment ends after three months;
- health coverage shifts to COBRA or Marketplace;
- new employment takes nine months and pays 15% less.

This joint event is more relevant than testing the stock alone. Company trouble can strike the portfolio and paycheck at the same time.

Nina's solution is not necessarily to sell all employer stock today. Taxes, trading windows, blackout periods, vesting, employee-purchase rules, and personal conviction matter. She does need a written reduction plan:

1. direct new contributions away from employer stock;
2. sell vested shares on a schedule using identified tax lots;
3. set a maximum percentage of investable assets;
4. prohibit buying more merely because the price fell;

5. hold the emergency fund outside the employer's securities and bank ecosystem where practical.

A familiar company is still one company.

Bond risk belongs in the same test

Investors often place bonds in the “safe” column without asking safe from what.

For a first-order estimate:

approximate bond price change $\approx$ -modified duration $\times$ change in yield

A bond fund with modified duration of seven years could decline roughly 7% if relevant yields rise one percentage point, before considering convexity, spread changes, cash flow, and manager activity. A two-percentage-point rise suggests roughly twice the first-order effect. Credit bonds can also fall when spreads widen, precisely when stocks are under pressure.

Individual high-quality bonds held to maturity provide a known maturity value if the issuer pays, but their market values still fluctuate before maturity. A bond ladder built for specific withdrawals should be judged by whether maturities meet those withdrawals, not only by the statement price this month.

Cash has inflation and reinvestment risk. Long bonds have duration risk. Credit has default and spread risk. Stocks have market and business risk. The purpose of allocation is not to find an asset with no risk. It is to avoid having all assets fail the same household obligation at the same time.

Willingness still matters

Capacity can say a household is financially able to hold 70% stocks. If the owner will sell after a 20% decline, 70% is not an investable policy.

Do not ask, “How would you feel if stocks fell 30%?” Convert the percentage to dollars and decisions.

“Your \$1.2 million portfolio falls to approximately \$900,000. The spending reserve remains funded for three years. The policy calls for

using maturing Treasuries and rebalancing \$35,000 into stocks. Would you do that, hold the allocation, or sell?”

The answer may still be unreliable because imagined losses are easier than real ones. Use observed behavior. What did the household do in 2008-09, March 2020, or 2022? Did it sell, freeze contributions, move to cash, or rebalance? If the household has never experienced a large balance decline, assume less confidence in its stated tolerance.

The correct allocation is one the plan can afford and the people can hold.

Set the loss budget before the stock percentage

A practical process works backward:

1. Choose a severe but plausible stress scenario for each asset class.
2. Determine the maximum portfolio dollar decline that does not impair Tier 1 spending or trigger likely abandonment.
3. Fund the known withdrawal schedule and reserves.
4. Solve for the maximum exposure to each risk asset consistent with the loss budget.
5. Check whether the resulting expected growth is adequate under conservative assumptions.
6. If not, change saving, spending, retirement timing, guaranteed income, or goals before simply increasing risk.

The limit can be written:

maximum risky-asset weight $\approx$ acceptable portfolio loss $\div$ assumed risky-asset stress loss

If a household can accept a 20% total portfolio decline and uses a 40% stock stress with other assets assumed flat for this narrow calculation, the rough stock ceiling is 50%:

$$20\% \div 40\% = 50\%$$

This is only a starting bound. Bonds and diversifiers can also lose money, correlations can rise, taxes matter, and a household may tolerate a larger temporary statement decline when withdrawals are fully matched. A multi-asset stress test replaces the shortcut before implementation.

Your action: write three failure sentences

Complete these without investment jargon:

1. “If our portfolio falls by \$____, we can still pay essential expenses for ____ years without selling stocks.”
2. “If the decline is accompanied by job loss, inflation, or a health expense, our first three actions are ____.”
3. “We must reduce risk or change the plan if ____.”

Then attach numbers: asset weights, stress returns, dollar loss, safe maturities, benefit start dates, flexible cuts, and the person authorized to act.

Nina did not become a conservative investor by checking a box. She became less fragile by reducing the exposure that could injure her income and assets at the same time.

Mark and Elise did not need a promise that a balanced portfolio would recover. They needed enough runway to avoid demanding that it recover on their schedule.

Chapter 4: Write the policy before the forecast

An investment forecast says what might happen. An investment policy says what the household will do.

The distinction matters most when the forecast is wrong.

Mark and Elise had accumulated seven retirement accounts, a taxable brokerage account, and cash at two banks. Their statements showed holdings. None showed which account would pay the mortgage after retirement, what would happen if stocks fell 35%, or who was authorized to rebalance when Mark wanted to wait for “more clarity.”

They did not need a thicker market outlook. They needed a short constitution for the money.

An investment policy statement is not reserved for pensions and endowments. A household version can fit on one page if the decisions behind it are complete. Its job is to prevent a frightened, excited, distracted, or impaired future self from renegotiating the plan in the middle of an event.

Begin with purpose, not percentages

The first sentence should identify what the portfolio funds.

Weak:

Our objective is long-term growth with moderate risk.

Useful:

This portfolio will fund the portion of Mark and Elise Brennan's retirement spending not covered by reliable income, maintain five years of the changing essential gap outside equities during the

retirement transition, preserve purchasing power through both lives, and remain operable by either spouse.

The useful version can be tested. “Moderate” cannot.

The purpose sentence also keeps secondary goals in their place. If a legacy target competes with essential lifetime spending, the policy states which comes first. If helping adult children is conditional on portfolio health, the condition is written before the request arrives.

State the facts that can change the allocation

The policy should list the variables that matter, not every fact about the household.

For Mark and Elise:

- planned work exit: 2029, Mark age sixty-three and Elise age sixty;
- no pension;
- five-year pre-Medicare interval for Elise after the planned exit;
- mortgage scheduled to end in 2031;
- Social Security claim dates to be selected separately from work exit;
- \$1.48 million current investable assets, subject to change before retirement;
- essential spending, flexible spending, and irregular reserve as defined in Chapter 1;
- no intended use of home equity in the base plan;
- both spouses must be able to locate accounts and initiate the cash-flow process.

Some facts will change. The policy therefore has review triggers. A permanent 15% increase in essential spending can change the allocation. A new pension can change it. A market prediction on television does not.

Assign every portfolio job

A practical policy separates four functions.

Operating cash

This is money expected to leave the household within roughly twelve months: planned net withdrawals, tax payments, known insurance premiums, and scheduled large bills. It belongs in vehicles selected for liquidity and principal stability, subject to institution and product risk.

Operating cash is not defined as “whatever is left in checking.” It has a target and a refill rule.

Withdrawal reserve

This holds the following years of the essential portfolio gap in high-quality instruments matched to dates. The reserve can use Treasury bills and notes, TIPS, insured CDs, or suitable high-quality bonds. Account location and tax affect implementation.

It is not automatically five years for everyone. A household with a pension covering essentials may need less. A household facing a large benefit bridge and unwilling to cut spending may need more. The policy names the covered years and obligations.

Growth portfolio

Diversified equities and other carefully selected growth assets protect long-horizon purchasing power and support later spending. They are expected to fluctuate. They are not the source for next month's essential bill merely because the account is liquid.

Contingency and legacy capital

This supports costs that do not fit the regular withdrawal schedule: major home changes, care, family support, and legacy. It may overlap with the other assets, but the policy states the priority. A legacy target cannot be described as guaranteed while the same dollars are also assigned to lifetime care.

Choose an allocation range, not a sacred point

A target such as 50% stocks, 45% bonds, and 5% cash creates the illusion that 49.8% requires action and 50.2% is perfection. Markets move every day. Taxes and account constraints make exact weights costly.

Use target ranges or rebalancing bands.

For an asset class with policy target w , an absolute band can be written:

$$\text{lower trigger} = w - b$$

$$\text{upper trigger} = w + b$$

If the stock target is 50% and the absolute band is five percentage points, the rebalance triggers are below 45% or above 55%.

A relative band can be written:

$$\text{trigger} = w \times (1 \pm r)$$

With a 20% relative band around a 10% allocation, the range is 8% to 12%. Relative bands are often more useful for small allocations because a five-point absolute band around 5% would permit the position to disappear or double.

The choice is a planning convention. There is no universal optimal band. Wider bands reduce trading but permit larger drift. Narrow bands keep exposures closer to target but can increase taxes, costs, and activity. The policy should specify which method applies to which asset class.

Rebalance in the least expensive order

The policy should prescribe a sequence:

1. direct new contributions to underweight assets;
2. use dividends, interest, and maturing securities;
3. fund withdrawals from overweight assets when tax-efficient;
4. trade inside tax-deferred or Roth accounts where suitable;
5. sell taxable positions only after reviewing tax lots, gains, losses, wash-sale exposure, and the household tax plan.

This turns withdrawals into maintenance. A retiree who needs cash after stocks have risen above target can sell stocks and reduce risk at the same time. After stocks fall below the lower band, cash and bond maturities can fund spending while rebalancing trades occur in sheltered accounts.

Rebalancing is not a promise to buy every falling asset. If an individual security falls because the business is impaired, the question is not target weight. This is one reason the policy favors diversified asset classes over concentrated positions.

Define market responses before markets receive names

“Bear market,” “bull market,” and “sideways market” are descriptions of what prices have done. They do not independently determine the strategic allocation. The household response comes from funded spending, valuation drift, and policy triggers.

When stocks enter a bear market

- Continue scheduled essential withdrawals from operating cash and matched maturities.
- Measure allocation drift; rebalance only when the written band is crossed.
- Suspend or reduce Tier 2 and Tier 3 spending under the guardrail rule if the portfolio funding ratio crosses its trigger.
- Harvest tax losses where useful without violating wash-sale rules or destroying the allocation.
- Do not replace the strategic allocation with a defensive forecast after the decline.
- Recalculate only if household facts changed: job loss, health, spending, benefit, debt, or time horizon.

During an extended bull market

- Rebalance excess risk rather than raising the target because recent returns feel safe.
- Refill the withdrawal reserve from overweight growth assets.
- Reduce concentration created by appreciation.
- Review embedded taxable gains before selling; use gifts, charitable strategies, and account trades where appropriate.
- Do not increase planned spending based solely on an account peak. Use the spending policy's guardrail.

During a sideways market

- Use cash flows and maturities rather than searching for a product that promises yield without risk.
- Reinvest distributions according to target weights if the household is not spending them.
- Review fees, taxes, credit quality, and maturity structure - the variables the household can control.
- Do not confuse a lack of price progress with a broken diversification plan.

During inflation and rising rates

- Reprice the essential spending schedule rather than relying only on headline inflation.
- Check the duration and maturity of bonds; allow planned maturities to roll into current yields.
- Maintain the inflation-responsive layer through Social Security, TIPS, growth assets, and other selected exposures.
- Avoid buying a supposed inflation hedge solely because it performed well after inflation was already visible.
- Reassess nominal pensions and fixed annuity payments in real terms.

During recession and deflation pressure

- Protect liquidity and credit quality; do not assume all bonds behave alike.
- Stress employment and benefit risks for a still-working household.
- Use the written reserve and spending priorities.
- Rebalance only within policy; do not borrow against essential assets to chase recovery.

These actions are deliberately repetitive in one respect: markets do not receive authority to rewrite the household. The policy controls the response.

Use age to locate the decision - not to dictate a percentage

Age changes account access, income, insurance, time horizon, and the identity of the person who may have to operate the plan. It does not, by itself, identify the right stock percentage. The useful age map is operational:

Life stage	Dominant portfolio question	Allocation work that should be complete
45 - 54	Can job loss and a market decline damage the same household at once?	remove employer concentration; finish the emergency reserve; build taxable bridge assets; keep long-horizon growth diversified
55 - 64	Can the household cross from wages to Medicare and later benefits without forced sales?	price the bridge year by year; preserve employer-plan access where useful; fund near-term essential gaps; stress the first five withdrawal years
65 - 72	Which income starts, which tax windows remain, and what is the survivor floor?	coordinate Medicare, Social Security, pension, taxable lots, and conversions; revise the reserve as reliable income begins
73 - 80	How will RMDs, giving, care, and a possible single survivor change cash flow?	integrate RMDs and QCDs; reduce pretax and operational concentration where justified; simplify accounts and authority
80 and later	Can another person run the system without selling the wrong asset?	protect cash operations, care flexibility, fraud controls, legal access, and a simple survivor allocation

The same household can move from one allocation need to another without changing its birthday category. A pension commencement or

mortgage payoff can improve risk capacity overnight. A care need or widowhood can reduce it just as quickly.

Start allocation from dependence on the portfolio

The following ranges are diagnostic examples, not model portfolios. They assume diversified public investments, no leverage, a separately funded emergency reserve, and a willingness to rebalance. “Growth” means diversified equities and any approved growth diversifier. “Stabilizers” means high-quality nominal and inflation-linked bonds assigned to the plan. Cash is operating and near-term withdrawal cash.

Household condition	Growth assets	Stabilizers	Cash	What must be true first
Reliable income covers 100% or more of essentials; portfolio draw below 2%; horizon 20+ years	55 - 75%	20 - 40%	2 - 7%	owner can tolerate the dollar loss; care and large purchases are separately reserved
Reliable income covers 75 - 99% of essentials; gross draw roughly 2 - 3.5%	45 - 65%	30 - 50%	3 - 8%	three to five years of essential gaps can be met without a depressed equity sale
Reliable income covers less than 75%; draw roughly 3.5 - 5%	35 - 55%	40 - 60%	5 - 10%	flexible spending has enforceable cuts and the plan passes a bad early sequence

Household condition	Growth assets	Stabilizers	Cash	What must be true first
Reliable income covers less than 75%; draw above 5% for more than a temporary bridge	percentage is not the first repair	percentage is not the first repair	protect one year	change spending, income, claim dates, housing, or retirement timing before optimizing allocation

Do not add the columns to an account statement before subtracting assets already committed to a roof, tuition, business obligation, or care reserve. Those dollars have jobs outside the general allocation.

How the range narrows to one policy

Begin in the row matching essential-income coverage and the gross, not net, portfolio draw. Then move within the range:

- toward less growth when the withdrawal bridge is long, spending is inflexible, the survivor cannot tolerate volatility, or concentrated risks remain;
- toward more growth when reliable income exceeds essentials, the horizon is long, withdrawals are low and flexible, and both the finances and the people can hold through the modeled loss;
- toward more cash only for dated near-term needs, administrative uncertainty, or a deliberately longer operating runway - not because a forecast sounds frightening;
- toward higher-quality or shorter bonds when those assets must fund a known date; toward longer duration only when it matches a long liability and the household accepts interim price movement.

Now test the proposed mix. If 60% growth is stressed at -40%, 35% stabilizers at -10%, and 5% cash at zero, the first-order household loss is:

$$0.60(-40\%) + 0.35(-10\%) + 0.05(0\%) = -27.5\%$$

Convert that result to dollars, add the planned withdrawal, and ask whether the policy would rebalance or abandon. A percentage that cannot survive that conversation is not the final allocation.

Market conditions change implementation, not the row retroactively

In a bear market, the household uses assigned cash and maturities and rebalances at the lower band. In a bull market, it trims above the upper band and refills liabilities. During high inflation, it reprices the spending schedule and reviews real-rate exposure. During recession or deflation, it protects credit quality and does not chase distressed yield. During a sideways market, it controls tax, cost, and withdrawals.

The strategic range changes only when the household condition changes: the portfolio gap, income floor, horizon, flexibility, concentration, health, or operator. That distinction is what prevents a market label from becoming a market-timing system.

Add spending guardrails

An allocation policy without a spending rule leaves half the system undefined.

Mark and Elise chose to separate the essential distribution from the flexible distribution. Their policy can use a funding ratio:

funding ratio = current investable assets ÷ present value of planned future portfolio withdrawals

That calculation requires assumptions and periodic updating. A simpler annual guardrail can use the current withdrawal rate:

current withdrawal rate = coming 12-month gross portfolio distributions ÷ current investable assets

Illustrative rule, not a universal recommendation:

- If the current rate remains within the policy range, fund planned spending.
- If it rises above the upper guardrail after poor returns, freeze inflation increases to flexible spending and reduce Tier 2 spending by the stated percentage.
- If it remains above the guardrail at the next annual review, reassess claim dates, housing, gifts, and other structural choices.
- If it falls below the lower guardrail after strong returns, consider a limited flexible-spending increase, reserve refill, gift, or legacy allocation rather

than permanently ratcheting every expense upward.

The actual percentages must be tested with the household's horizon, allocation, income floor, tax, and willingness to adjust. A guardrail is useful because it connects market outcomes to a predetermined action. It is dangerous when presented as a guarantee.

Identify authority and incapacity procedures

Howard Cho's investment knowledge was not an unqualified strength. It had allowed the household to postpone documentation. Lena knew that money existed at several institutions, but she did not know which account paid quarterly taxes or how Howard chose IRA distributions.

Their policy needed an operations section:

- names and contact information for custodian, tax professional, attorney, and adviser, if any;
- location of current statements, tax returns, estate documents, insurance contracts, and digital-access instructions;
- legal authority under durable powers of attorney and trusts, verified with counsel and institutions;
- beneficiary review schedule;
- person authorized to trade or request distributions;
- signs that trigger assistance or transfer of responsibility;
- a simplified default allocation and withdrawal procedure.

Passwords should not be printed in the investment policy. The document should say where secure access instructions are maintained and who is legally authorized to use them.

The portfolio fails if it works only while one specific person is healthy and attentive.

The Brennan one-page policy

After the supporting calculations, Mark and Elise's working policy read as follows.

Purpose. Fund their changing retirement gap through both lives, protect five years of essential bridge needs outside equities, maintain long-term purchasing power, and remain manageable by either spouse.

Priorities. Essential lifetime spending first; health and home reserves second; planned travel third; gifts and legacy fourth.

Liquidity. Hold the next twelve months of planned net withdrawals and known taxes in operating cash. Match the following four years of the essential gap with high-quality maturities. Recalculate as Social Security, Medicare, and mortgage status change.

Strategic allocation. Final percentages will be adopted only after the bridge quotes and Social Security decisions are complete. The policy will state targets and bands for U.S. equity, international equity, high-quality nominal bonds, TIPS, cash, and any approved diversifier. No security may be added without a named job.

Rebalancing. Review quarterly for band breaches; trade at least annually when required. Use cash flows, maturities, sheltered accounts, and tax-aware lots in that order.

Spending response. Essential spending continues from the funded schedule. Flexible spending follows the chosen withdrawal guardrail. No permanent spending increase is based on an account high alone.

Prohibited actions. No margin borrowing; no uncovered options; no new individual position above the stated concentration limit; no annuity, private product, structured note, nontraded REIT, or illiquid fund without written cost, liquidity, tax, counterparty, and purpose review.

Review triggers. Annual meeting; death or incapacity; job loss; retirement-date change; move; material health event; pension or benefit election; 15% permanent spending change; inheritance or gift above the policy threshold; change of adviser or custodian.

Authority. Both spouses receive the annual cash-flow map. The named successor and professional contacts are maintained with the estate documents.

That page did not select their final funds. It made fund selection subordinate to the household.

Your action: draft the policy in verbs

Avoid words that describe aspirations without behavior: prudent, balanced, reasonable, conservative, opportunistic. Use verbs:

- hold;
- match;
- rebalance;
- sell;
- refill;
- reduce;
- review;
- prohibit;
- authorize.

If a sentence cannot tell the future household what to do, it probably belongs in a brochure, not a policy.

Complete the first version before reading the next market forecast. The policy will change when the life changes. It should not change merely because the forecast does.

Part II - Build the permanent portfolio

Chapter 5: Cash is a schedule, not an opinion

“How much cash should I hold?” sounds like an allocation question. It is usually a calendar question.

Cash has at least four household jobs: transactions, emergencies, planned spending, and strategic reserve. Combining them produces one large bank balance with no clear rule for when it may be spent. Separating them prevents an emergency fund from quietly financing a vacation or a retirement reserve from being treated as permanently idle.

Name the four jobs

Operating cash pays the next one to three months of ordinary bills. Its priorities are access, payment reliability, and fraud controls.

Emergency cash covers disruptions that cannot wait for a portfolio sale: a deductible, urgent travel, home failure, or temporary loss of income. The amount depends on insurance, household size, income stability, home condition, and support obligations - not a universal number of months.

Planned-withdrawal cash holds the portion of the next twelve months' portfolio distribution not covered by reliable income. It is replenished according to the investment policy.

Known-purchase cash is attached to a date and amount: taxes, a vehicle, tuition commitment, roof, relocation, or major gift. It stops being an investment allocation question once the purchase date is near.

Write each balance separately even if one account holds several jobs.

cash target = operating need + emergency reserve + next-year net withdrawals + known purchases

Subtract cash arriving before each obligation, but do not count an uncertain bonus, home sale, or investment gain.

Cash vehicles are not interchangeable

A bank checking or savings account is a deposit obligation of the bank and may receive FDIC insurance within applicable depositor, bank, and ownership-category limits. Coverage is not simply \$250,000 per account. Multiple accounts in the same ownership category at one bank can be aggregated.

A money market deposit account is a bank deposit. A money market mutual fund is a security. The names are similar; the legal structure and protection are not. A money market fund may seek a stable value but is not an FDIC-insured bank deposit.

Treasury bills are direct obligations of the U.S. Treasury with short maturities. Their market price can move before maturity, but a bill held to maturity pays its stated maturity value subject to federal payment risk. Interest is subject to federal income tax and generally exempt from state and local income tax.

Brokered CDs may provide FDIC coverage when correctly titled and within limits, but liquidity depends on a secondary market rather than a bank's early-withdrawal provision. Prices can be below face value when sold early. Callable CDs allow the issuer to return principal before the date the investor expected.

Series I savings bonds have inflation-linked terms and federal rules on purchase limits, redemption timing, and early-redemption interest forfeiture. They can serve a long-term inflation-reserve role, but a newly purchased I bond cannot pay next month's bill.

The choice follows the date:

- tomorrow's bill needs immediate access;
- next quarter's estimated tax needs a known, liquid amount;
- next year's withdrawal can use a short maturity;
- a five-year inflation-sensitive reserve can tolerate different constraints.

The yield is after tax and after inconvenience

Compare cash vehicles on a common basis.

For a taxable instrument:

after-tax yield $\approx$ stated yield $\times$ (1 - applicable marginal tax rate)

For a federally taxable but state-exempt Treasury, apply federal tax but not state income tax where the exemption is recognized. For a tax-exempt instrument, calculate its tax-equivalent yield only using the tax actually avoided:

tax-equivalent yield = tax-exempt yield $\div$ (1 - marginal rate avoided)

Do not use the top advertised bracket if the household is not in it. Do not ignore state sourcing rules, Medicare surcharges, Social Security taxation, or premium-credit effects when the amounts are large enough to matter.

Yield also has an operational cost. An extra 0.20% on \$25,000 is \$50 a year before tax. If obtaining it requires constant transfers, a new institution, delayed access, or fraud exposure, the household may rationally choose simplicity.

Build the retirement paycheck

Ruth receives Social Security and pension payments during the month, while property costs, insurance, and irregular expenses arrive on different schedules. Her portfolio should fill only the residual gap.

At the start of the year:

1. project monthly reliable deposits;
2. project essential and planned withdrawals;
3. add quarterly and annual tax payments;
4. place the net shortfall for the next twelve months in the spending account;
5. schedule transfers monthly or quarterly;
6. refill at the annual review or when allocation bands direct a sale.

The annual amount is:

planned cash refill = twelve-month spending + tax - reliable deposits - other scheduled cash inflows

This method prevents gross spending from being duplicated. Ruth does not need twelve months of total expenses in cash when Social Security and pension checks cover most of those expenses.

Do not use cash to avoid making a decision

Some households hold years of spending in cash because investing feels uncertain. That choice still has risks:

- inflation reduces purchasing power;
- falling rates reduce future interest;
- excessive cash can force the growth portfolio to take more risk to meet long-term goals;
- scattered accounts increase operational burden;
- large uninsured deposits can create avoidable bank exposure.

Cash is justified by its assigned obligations and by the household's behavior. A slightly larger reserve can be rational if it prevents panic selling. It becomes expensive when no event or rule can release it.

Every cash bucket needs a refill rule and a maximum. Example:

Hold twelve months of net planned withdrawals plus the emergency reserve. Refill from maturities and portfolio cash flows each quarter. Sell overweight assets at annual review. If cash exceeds eighteen months of planned net withdrawals without a named purchase, invest the excess according to target weights.

Keep fraud and access in the policy

Cash is the easiest asset to spend and often the easiest to steal.

Use separate operating and reserve accounts when practical. Enable transaction alerts. Restrict wire privileges. Verify instructions through a known phone number. Do not place all household liquidity behind one email address, one mobile device, or one person's memory. Review

payable-on-death and trust titling with the estate plan rather than assuming a beneficiary designation solves incapacity.

For Howard and Lena, simplifying cash meant fewer accounts, not one vulnerable account. They retained an operating bank, a separate reserve institution, and Treasury holdings at the custodian. Lena practiced locating the balances and initiating a routine transfer while Howard was available to correct the process.

Your action: attach every cash dollar to a date

Create four rows: operating, emergency, next-year withdrawal, and known purchase. For each row record amount, date, institution, legal vehicle, insurance or government-backing status, yield, tax treatment, access time, authorized person, and refill rule.

If a dollar has no job and no release rule, it is not a cash plan. It is postponed allocation.

Cash should make the rest of the portfolio easier to hold. Once its schedule is clear, bonds can be chosen for the years after cash rather than used as a vague synonym for safety.

Chapter 6: Bonds - maturity, duration, credit, and inflation

A bond is a loan. The borrower promises interest and repayment under stated terms. Everything important follows from asking four questions: who owes the money, when it is due, what can change before then, and what happens if the household needs to sell early.

Retirees often buy bonds for “safety” and then discover that a long-duration fund can fall sharply, a high-yield fund can behave like stocks in a recession, or a municipal bond can be called when reinvestment is least attractive. Those are not exceptions to how bonds work. They are the risks that created the yield.

Match the instrument to the obligation

Begin with the date of the household liability.

If \$30,000 is needed in eighteen months, a long-term bond fund is a poor match even if its average credit quality is high. Its price can be down when the withdrawal occurs. A Treasury bill, insured CD, or short high-quality instrument maturing near the date gives the liability priority over return speculation.

If the money supports spending ten or twenty years from now, accepting more duration can be reasonable. Longer high-quality bonds may diversify certain equity shocks and lock a yield for longer, but their prices are more sensitive to rate changes.

The scheduling equation is:

asset maturity date $\approx$ liability payment date

Exact matching is not always practical. A fund can efficiently diversify many bonds, reinvest cash flows, and maintain a targeted duration. The

essential distinction is between a known individual-bond maturity and a fund whose holdings continually roll. A fund does not “mature” on the date its average maturity reaches a number on a fact sheet.

Duration estimates the first impact of rates

Modified duration provides a first-order estimate:

approximate price change = -modified duration × yield change

A bond fund with duration six would be expected to fall roughly 6% if relevant yields rose one percentage point, before convexity and other changes. If yields fell one point, the first-order estimate suggests a gain of roughly 6%.

This is an estimate, not a promise. Credit spreads can move, the yield curve can change unevenly, embedded options can alter behavior, and the fund receives coupons and replaces holdings. Duration is still more useful than describing a fund as short, intermediate, or conservative without measuring its rate exposure.

For a planned withdrawal ladder, track maturity and cash flow. For a diversified bond fund, track duration, credit, sector, expenses, and role.

Yield is compensation, not a gift

When one bond yields materially more than a Treasury of similar maturity, ask what risk the market is pricing.

The difference may compensate for:

- credit or default risk;
- lower liquidity;
- call or prepayment risk;
- subordination;
- complex structure;
- currency risk;
- longer duration;
- tax differences;

- uncertainty about cash flows.

“Investment grade” reduces but does not eliminate credit risk. Ratings are opinions that can change. A diversified investment-grade corporate fund can provide income, but corporate spreads often widen when the economy weakens. High-yield bonds can fall alongside equities because the same business conditions threaten both.

If the bond allocation exists to protect near-term essential withdrawals during an equity bear market, loading it with equity-like credit risk defeats the job.

Treasury securities and government exposure

Treasury bills mature in one year or less; notes generally mature in two to ten years; bonds have longer maturities. TIPS adjust principal with the applicable inflation index and pay interest based on the adjusted principal. Treasury interest is federally taxable and generally exempt from state and local income tax.

Treasuries address credit risk differently from corporate or municipal debt, but they do not eliminate price, inflation, reinvestment, or political-payment risk. A thirty-year Treasury can be highly volatile. A Treasury bill can lose real purchasing power if inflation exceeds its after-tax yield.

TIPS protect against measured inflation under their terms when held appropriately. Their market price still moves with real yields. In a taxable account, inflation adjustments can create current federal taxable income even though the principal is not received until sale or maturity; account location deserves review.

Use nominal Treasuries for known nominal payments, TIPS for selected real spending, and a combination when both risks matter. Do not ask one security to solve every form of inflation.

Municipal bonds require tax arithmetic and credit work

Municipal interest is often exempt from federal income tax and may receive state treatment depending on issuer and residence. Exemption does not make the bond economically superior.

Compare tax-equivalent yield:

tax-equivalent yield = municipal yield $\div$ (1 - marginal rate avoided)

If a municipal bond yields 3.0% and the investor genuinely avoids a 24% federal marginal rate, its federal tax-equivalent yield is approximately 3.95%:

$3.0\% \div 0.76 = 3.95\%$

Then compare credit, duration, call terms, liquidity, state tax, alternative minimum tax exposure where relevant, and diversification. A lower-bracket retiree may receive little advantage. Municipal interest can also enter Social Security provisional-income calculations even when excluded from federal gross income.

Ruth held municipal bonds inside her traditional IRA. The federal interest exemption provided no current benefit inside an already tax-deferred account, while later IRA distributions were generally taxable as ordinary income. That did not require an immediate sale without cost analysis, but it made the position's location hard to defend.

Individual bonds and bond funds solve different problems

An individual-bond ladder offers dated principal payments, assuming the issuer pays. It can make spending visible and reduce concern about interim prices. It also requires diversification, reinvestment, pricing discipline, recordkeeping, and attention to calls.

A bond fund offers diversification, professional administration, automatic reinvestment, and easier rebalancing. It has no fixed date when the shareholder receives par value. Its net asset value responds continually to the portfolio.

Use individual high-quality securities when a maturity must meet a known liability and the household can manage the ladder. Use funds when maintaining diversified exposure is more important than matching one date. Many households use both.

The phrase “hold bonds to maturity” does not rescue a fund from price fluctuation. The phrase “bond funds recover” does not guarantee recovery by the date a retiree needs cash.

Beware of hidden calls and extensions

Callable bonds can be redeemed by the issuer under contract terms, often when rates have fallen and the investor would prefer to keep the higher coupon. Mortgage-backed securities can return principal faster when refinancing rises and slower when rates rise. That creates prepayment and extension risk.

The displayed yield may assume a particular call or cash-flow path. Review yield to maturity, yield to call, and yield to worst as applicable. A premium bond called early can produce a different result from its coupon.

If the household requires an exact payment on an exact date, avoid structures whose cash-flow timing is controlled by someone else unless the uncertainty is deliberately accepted.

Construct the bond allocation by job

A retirement bond allocation can contain distinct sleeves:

1. Near-term maturities: high-quality securities aligned with the next several years of essential gaps.
2. Core high-quality bonds: diversified rate exposure intended to stabilize the growth portfolio and provide rebalancing capacity.
3. Inflation-linked bonds: TIPS assigned to part of future real spending.
4. Limited credit exposure: corporate or other bonds included for total-return reasons, with an explicit maximum and no claim that they are cash substitutes.

5. Tax-aware municipal exposure: only when after-tax comparison and credit diversification justify it.

The percentages follow the liabilities and total portfolio, not a model portfolio copied from a person with different income.

Stress the bonds with the stocks

Do not test bonds only in a falling-rate recession. Also test:

- rates rise two percentage points;
- inflation remains above nominal yields;
- corporate spreads widen sharply;
- a municipal issuer is downgraded;
- callable bonds are redeemed after rates fall;
- the household must sell before maturity;
- one custodian or issuer becomes temporarily difficult to access.

Calculate the approximate duration loss, then add credit and liquidity scenarios rather than assuming they net to zero.

Your action: create a bond inventory

For every bond, CD, or fund, record:

- issuer or fund;
- account type;
- market value;
- maturity or duration;
- yield measure and date;
- credit quality and concentration;
- call or prepayment feature;
- inflation linkage;
- tax treatment;
- household job;
- spending date, if matched.

If the job column says only “income,” rewrite it. State which expense, risk, or rebalancing need the holding serves.

A bond allocation is successful when it pays what the household assigned to it and behaves within the risks the policy accepted. A high yield is not the definition of success.

Chapter 7: Stocks - own the economy without betting the retirement

Stocks are the growth engine of most retirement portfolios and the source of their most visible losses. The answer is not to pretend the volatility disappears over time. It is to ensure that no single company, country, style, or forecast controls whether the household can keep spending.

A stock represents ownership in a business. Return comes through changes in business value, dividends, buybacks, and the price other investors will pay. None arrives on the household's schedule.

Start with the total stock job

The policy determines how much equity risk the household can hold. Stock selection comes afterward.

If the policy target is 50% stocks, dividing that 50% among six stock funds does not reduce the total equity exposure. Funds can overlap heavily. A U.S. large-cap fund, an S&P 500 fund, a technology fund, and a growth fund may own many of the same dominant companies.

Calculate exposure by underlying holdings, not fund names:

$$\text{company exposure} = \sum(\text{account holding} \times \text{fund weight in company}) + \text{direct shares}$$

Do the same for country, sector, and style when concentration is material.

The purpose of broad diversification is not to make every holding rise. It is to avoid requiring one narrow part of the market to succeed.

U.S. and international stocks solve different concentration problems

U.S. companies sell around the world, but that does not make a U.S.-only portfolio equivalent to owning global markets. Domicile affects valuation, currency, regulation, sector composition, political exposure, and shareholder rights.

International developed and emerging markets add risks, including currency, governance, trading, and geopolitical risk. They also reduce dependence on one country's valuation and economic path.

There is no precise international percentage required for every American retiree. The policy should state a durable range and a rebalancing rule. A household that repeatedly abandons international stocks after underperformance will realize the cost without receiving the diversification benefit. A household unable to hold the allocation should choose a smaller deliberate position rather than a larger aspirational one.

Market capitalization is a neutral starting point, not a law

A broad market-cap-weighted index owns companies in proportion to their market value. It is transparent, low turnover, and self-adjusting as companies grow or shrink. It will also become concentrated when the market becomes concentrated.

Equal weight, value, small-company, quality, profitability, low-volatility, and other factor approaches change the risk. They may have evidence and a role, but they can lag the broad market for long periods and create tax, turnover, tracking, and behavioral costs.

Before adding a tilt, write:

- the risk or expected-return reason;
- maximum allocation;
- cost and tax effect;
- expected periods of underperformance;
- condition for removal that is not merely “it lagged.”

If the household cannot explain the position without recent performance, the position is probably a forecast wearing an academic label.

Dividends are not a separate form of safety

A dividend is a transfer of corporate value to shareholders. On the ex-dividend date, all else equal, the share price reflects the cash leaving the company. A retiree can spend dividends, but the economic question is total return after tax and risk.

High-dividend portfolios can concentrate in particular sectors, avoid growing companies that retain earnings, and create taxable income the household did not need. A dividend can be reduced. A fund distribution can be financed by realized gains or return of capital depending on the product.

Use:

total return = price change + distributions

Then decide how much cash to withdraw. Selling a small number of shares is not inherently worse than receiving an unwanted distribution. Tax lots, transaction costs, and behavior determine the implementation.

Individual stocks need a loss limit

Nina's employer stock combined business concentration with career concentration. A retiree holding a favorite bank, utility, or former employer may face a similar risk without the paycheck.

Set limits at two levels:

- maximum for one company;
- maximum for all individual stocks combined.

The limit should include shares held directly, inside compensation plans, and indirectly through concentrated funds where practical. Decide what happens when appreciation crosses the limit. “Review” is not an action; “sell to the upper policy band at the next permitted window after tax-lot review” is.

Tax does not make a concentrated position safe. A capital-gain bill is a known cost; catastrophic company loss is an uncertain one. The decision compares the tax paid to the risk removed, charitable or estate alternatives, and the time over which diversification can occur.

Bear and bull markets change trades, not the mission

In a bear market, stocks may cross the lower policy band. Rebalancing then buys stocks with safe assets or cash flows according to the policy. It does not require guessing the bottom. Essential withdrawals continue from their assigned source.

In a bull market, stocks may cross the upper band. Selling refills future withdrawals and reduces risk. It does not mean predicting the peak.

In a sideways market, dividends and earnings continue unevenly while valuation can compress or expand. The household controls cost, tax, diversification, and spending - not the date prices resume rising.

The strategic stock percentage changes when the household's capacity, need, or time horizon changes. A market label alone is insufficient.

Reinvest only the cash the household does not need

During accumulation, automatic dividend reinvestment is convenient. Near retirement, it can create unnecessary trades: distributions buy shares while the household sells other shares for spending.

Direct portfolio income to operating cash when it is part of the withdrawal plan. Reinvest excess according to target weights, not automatically into the fund that produced it. In taxable accounts, remember that a distribution can create tax whether taken in cash or reinvested.

Your action: expose the hidden portfolio

Create one consolidated stock table across every account. List U.S., international developed, emerging, small-company, sector, factor, REIT, individual-company, and employer-stock exposure. Use underlying holdings where overlap is material.

For every non-broad-market position, write its job, maximum, tax location, expected disadvantage, and sell rule. Remove any holding whose only job is “performed well” or “pays a high dividend.”

The stock portfolio does not need to predict the next winner. It needs to participate broadly in future enterprise without making retirement depend on one story.

Chapter 8: Real estate, gold, commodities, and other diversifiers

A diversifier earns its place by changing the behavior of the whole plan. Being different is not enough. An asset can be different from stocks and still be expensive, illiquid, opaque, volatile, tax-inefficient, or useless when the household needs cash.

Use four tests:

1. What specific risk is the asset intended to diversify?
2. Under what conditions should it help?
3. What does it cost in fees, tax, liquidity, complexity, and foregone alternatives?
4. How large can it become before it creates a new concentration?

If those questions cannot be answered, the position is a collection, speculation, or preference. It may still be owned, but it should not be sold to the household as retirement engineering.

The home is both shelter and an asset

Howard and Lena's house is worth an estimated \$830,000. It provides housing, emotional value, neighborhood access, and potential future capital. It also requires tax, insurance, maintenance, and adaptation. It cannot pay groceries without a transaction.

The base retirement portfolio should not include full home value in the withdrawal-rate denominator while also assuming the household lives there indefinitely. That counts an unavailable asset as spendable.

Model housing under explicit scenarios:

- remain and fund ongoing ownership;
- renovate for accessibility;
- sell and buy a less expensive home;
- sell and rent;
- move near family;
- use a home-equity loan or line;
- obtain a reverse mortgage after reviewing current terms;
- transition to a community with services.

For a sale scenario:

net housing capital released = sale price - mortgage - selling costs - taxes - replacement housing cost - moving/adaptation cost

Only the net amount becomes investable. A \$700,000 home sold to purchase a \$600,000 replacement does not add \$700,000 to the retirement portfolio.

Rental property is a business exposure

Direct rental property can produce income and potential appreciation. It also concentrates the household in one location, financing structure, tenant market, regulatory system, and physical asset.

Calculate economic income rather than rent collected:

net rental cash flow = rent - vacancy - management - maintenance - insurance - property tax - utilities paid by owner - association - debt service - capital reserve - income tax

Mortgage principal is not an operating expense in an economic-return calculation, but it is a cash outflow in retirement feasibility. Depreciation can reduce current taxable income while creating basis and recapture consequences at sale. A property showing positive cash flow before a roof, vacancy, and management allowance may not be producing a durable retirement income.

Stress one year with no rent, a major repair, higher insurance, and a forced professional manager. If the plan works only because the retiree provides free labor, the property is partly a job.

Public REITs are stocks with real-estate exposure

Publicly traded real estate investment trusts provide liquid ownership in property businesses. They can diversify company and sector exposure, but they trade in equity markets and can decline sharply. Interest rates, property type, leverage, tenant demand, and management affect results.

A broad stock index already owns REITs. A separate allocation is an overweight, not the household's first exposure. State the reason and maximum.

Nontraded REITs and private real-estate funds introduce different liquidity, valuation, fee, leverage, and redemption risks. A periodic statement value does not prove price stability; it may simply be updated less often. Retirement money assigned to a known date should not depend on a redemption program the manager can limit.

Gold does not produce household cash flow

Gold can respond to currency distrust, real rates, inflation expectations, crisis demand, and investor positioning. It has also experienced long periods of weak real return. It produces no earnings, rent, or contractual interest.

That does not make it useless. A limited allocation can diversify certain monetary and market risks. The policy must define whether ownership is through physical bullion, an exchange-traded product, mining companies, futures, or another structure. These are not equivalent.

Physical metal has dealer spreads, storage, insurance, verification, and access issues. A grantor trust or exchange-traded vehicle has fees, custody structure, tax treatment, and market liquidity. Mining shares are operating companies and can behave more like volatile equities. Futures introduce collateral, roll, leverage, and contract risk.

Gold is not the source for next year's grocery bill. If included, it belongs in a capped diversifier sleeve with a rebalancing rule.

Commodity exposure is not the spot price on television

A retiree rarely stores barrels of oil, bushels of wheat, and industrial metal. Commodity funds often use futures. Their returns can differ from changes in spot commodity prices because contracts expire and must be replaced.

When later futures prices are above near contracts, repeated rolling can impose a drag. When the curve has the opposite shape, roll can help. Collateral yield, fees, index design, concentration, and tax reporting also matter.

Commodities can react positively to some inflation shocks that hurt stocks and nominal bonds. They can also be volatile and produce long disappointing periods. Treat them as a limited shock diversifier, not as a permanent inflation guarantee.

Private investments exchange visibility for restriction

Private equity, private credit, venture funds, limited partnerships, nontraded real estate, oil-and-gas programs, and private placements can offer differentiated exposure. They can also carry capital calls, long lockups, limited information, manager-selection risk, leverage, valuation discretion, complex tax forms, and high fees.

An illiquid asset should pass a harsher test for a retiree:

- all essential withdrawals remain funded without it;
- capital calls can be met during a market decline;
- the household understands the legal structure and waterfall;
- failure or a long delay does not change housing or care;
- the surviving spouse can administer it;
- tax reporting and estate transfer are planned;
- the allocation remains within a written illiquidity ceiling.

The return estimate should be reduced for fees and tested against a public-market alternative. Smoother reported values are not evidence of lower economic risk.

Cryptoassets belong in the speculation budget

Cryptoassets vary widely in structure and purpose. Their prices can be highly volatile; custody, platform failure, fraud, hacking, regulatory change, liquidity, and tax recordkeeping add risks beyond price movement. A token's limited supply does not guarantee stable purchasing power or retirement income.

If a household chooses to own cryptoassets, use money whose total loss does not impair essential spending. Set a maximum at purchase and after appreciation. Decide custody, succession access, tax-lot records, and rebalancing before buying. Do not fund a position with margin or money assigned to the retirement bridge.

Calling an asset “digital gold” does not give it gold's history, and calling gold a hedge does not make either asset safe.

Collectibles and personal assets are not liquid reserves

Art, watches, wine, cars, coins, jewelry, and other collectibles may provide pleasure and can appreciate. Values are appraisal-dependent, markets can be thin, selling costs can be high, insurance and storage matter, and federal tax treatment can differ from ordinary long-term capital gains.

Record them in the estate inventory. Exclude them from retirement funding until a realistic sale price, cost, tax, and buyer timeline are established.

Measure contribution to the whole portfolio

For any diversifier, compare the total portfolio before and after it:

- expected volatility and loss in named stress periods;
- liquidity available for withdrawals;
- inflation sensitivity;
- tax and fees;
- operational complexity;
- concentration and counterparty exposure;

- expected return under conservative assumptions.

A 5% holding that falls when stocks fall may still help if it falls much less and remains liquid. A 5% holding that rises in one historical crisis may fail in another. Correlations are observed relationships, not contracts.

Set a total diversifier budget so that six interesting 5% ideas do not quietly become 30% of the portfolio.

Your action: make every alternative asset defend itself

For each home, rental, REIT, metal, commodity fund, private investment, cryptoasset, or collectible, write:

- current value and reliable valuation date;
- cost basis and tax character;
- cash flow after all costs;
- time required to sell;
- maximum expected loss used in planning;
- counterparty or custody risk;
- household job;
- maximum policy weight;
- exit rule;
- successor instructions.

An asset that cannot answer these questions may still be enjoyable. It is not entitled to be called a retirement diversifier.

Chapter 9: Annuities and the price of a guaranteed check

An annuity is a contract with an insurance company. That sentence is more useful than calling it an investment, pension substitute, guaranteed portfolio, or tax shelter. The contract determines the promise, access, fees, beneficiaries, taxes, and risks.

The category contains products with different purposes. A single-premium immediate annuity that begins lifetime payments next month is not economically the same as a variable annuity with investment subaccounts and an income rider. A fixed indexed annuity is not an index fund. A registered index-linked annuity can expose the owner to loss within contractual limits or, for some options, more broadly.

Do not evaluate “annuities.” Evaluate the specific contract against the household problem.

Decide whether the problem is accumulation or income

An accumulation annuity is designed to hold and grow contract value under stated rules before withdrawals or annuitization. An income annuity converts premium into scheduled payments beginning immediately or later.

A retiree seeking a dependable lifelong floor should first compare direct income solutions: Social Security delay, pension election, immediate or deferred income annuity, and a bond/TIPS ladder. Adding a complex accumulation contract simply because it offers an income rider can make the comparison harder.

The household should name the gap:

lifelong essential gap = essential lifetime spending - Social Security - pension - other reliable lifetime income

An annuity quote should be sized against some or all of that gap, not against the salesperson's proposed percentage of net worth.

A payout is not a yield

If a sixty-eight-year-old pays \$200,000 and receives \$15,000 a year for life, the 7.5% payout rate is not a 7.5% investment yield. Payments can include return of the buyer's own premium, mortality pooling, insurer pricing, interest, and contract options. Principal may no longer be separately accessible after annuitization.

Compare contracts using:

- monthly payment;
- payment start date;
- life-only, joint-life, period-certain, or refund feature;
- survivor percentage;
- inflation or step-up terms;
- death benefit;
- liquidity and surrender rights;
- insurer claims-paying ability;
- tax character;
- total premium;
- value under early-death and long-life scenarios.

A life-only contract can show the highest payment because it promises less to heirs and stops at death. That may be appropriate for a single person prioritizing lifetime income, or unacceptable when another person depends on the assets.

Guarantees have a counterparty

An insurer guarantee depends on the insurer's claims-paying ability. State guaranty associations may provide limited protection under state law, but coverage, limits, eligibility, and coordination differ. They are not a substitute for insurer review and should not be used as a sales guarantee.

Large purchases may be divided among insurers when suitable, but more contracts increase administration. Review financial strength from multiple sources, legal entity, state, and contract owner. A brand name can include several issuing companies.

Fixed, indexed, variable, and buffered are not synonyms

Fixed annuity: credits interest under contract terms. The stated rate may be guaranteed for a period and then reset subject to a minimum. Surrender charges and market-value adjustments may affect access.

Fixed indexed annuity: credits interest through a formula linked to an index, often using caps, participation rates, spreads, or other limits. The owner does not receive index dividends as a direct index investor would, and credited return can be zero even when the index rose modestly under some formulas.

Variable annuity: contract value varies with selected investment options. It can contain mortality-and-expense charges, administration, underlying-fund expenses, surrender charges, and optional rider fees. Holding it inside an IRA or other tax-advantaged plan provides no additional tax deferral from the annuity itself.

Registered index-linked annuity: links return to an index under defined crediting and loss terms. Buffers and floors apply only as written, over stated terms, and may not protect withdrawals or early exits the way a buyer expects.

Ask for the prospectus or contract, current rate sheet, all rider disclosures, surrender schedule, and a written explanation of the worst permitted outcome.

An income rider is not the account value

Many deferred annuities maintain a benefit base used to calculate income. The benefit base may grow under a formula and can appear larger than the cash value. It is generally not an amount the owner can withdraw as a lump sum.

Write three figures separately:

- contract or cash value;
- surrender value today;
- income benefit base.

Then record the withdrawal percentage applied to the benefit base at each start age, whether withdrawals reduce guarantees, and what remains for beneficiaries.

A “10% bonus” or “7% roll-up” can apply to a benefit base rather than spendable money. The label has no value without the formula.

Tax treatment depends on the money used

A qualified annuity held in an IRA or employer plan generally follows the account's tax rules. The annuity does not create a second layer of tax deferral. A nonqualified annuity bought with after-tax money has basis and earnings rules that differ depending on whether money is withdrawn or the contract is annuitized.

Early distributions can trigger federal additional tax where applicable. Exchanges under section 1035 may defer recognition when requirements are met, but a new surrender period, new fees, and lost benefits can make an exchange economically poor even if tax-deferred.

Do not move an appreciated taxable portfolio into a product merely because “tax deferral” sounds beneficial. Compare capital-gain treatment, ordinary-income treatment, liquidity, step-up and estate issues, fees, and the household's actual holding period.

Price the liquidity surrendered

Before purchase, subtract the premium from liquid assets and rerun the retirement plan. The remaining portfolio must still fund:

- emergencies;
- home repair or move;
- care;
- taxes;
- flexible spending;
- inflation not covered by the payment;
- legacy commitments;
- several years of market-sensitive withdrawals.

An annuity can reduce longevity risk while increasing liquidity risk. Buying too much solves one problem by creating another.

Compare at least three designs

For the same premium and start date, request:

1. life-only or joint-life payment;
2. payment with an appropriate survivor or refund feature;
3. an inflation-adjusted or increasing-payment option if available.

Also compare multiple insurers and a do-it-yourself Treasury/TIPS ladder. Use the same premium, tax source, and household objective.

For a married household, run both death orders. For a single household, test early death and long life. The goal is not to maximize expected inheritance and lifetime income simultaneously; contract options trade one for the other.

When the answer is no

Decline or postpone when:

- the essential floor is already fully covered;
- liquidity after purchase is inadequate;

- the buyer does not understand the crediting or rider formula;
- the salesperson will not provide complete cost and surrender information;
- the contract is being placed inside a retirement account solely for tax deferral;
- replacement resets surrender charges without documented benefit;
- the household expects near-term access;
- the product depends on a market forecast rather than a permanent need.

Your action: complete the contract comparison

Put each quote in a table with premium, issuer, legal product type, cash value, surrender value, surrender schedule, payment, start date, survivor terms, inflation terms, death benefit, explicit and implicit costs, tax source, commissions where disclosed, and remaining liquid assets.

Then finish one sentence:

We are paying \$_____ and surrendering _____ in order to guarantee _____ for _____ lives beginning _____.

If the blanks cannot be filled from the contract, do not buy it.

An annuity is valuable when it transfers a risk the household should not carry at a price and loss of liquidity it can afford. It is not valuable merely because the word guaranteed appears more often than the numbers.

Chapter 10: Account location - where each asset belongs

Asset allocation answers what the household owns. Account location answers where it owns it.

The same Treasury bond, stock fund, or REIT can produce a different after-tax result in a traditional account, Roth account, HSA, or taxable brokerage account. Location also affects access, RMDs, beneficiary treatment, and the flexibility to fund a low-income year.

There is no universal rule such as “bonds always go in the IRA.” The correct location follows expected return, tax character, withdrawal date, current and future marginal rates, state tax, and the household's need for control.

Understand the four tax containers

Traditional pretax accounts generally defer current tax. Distributions are generally ordinary income except for documented basis or another applicable rule. Future RMDs can force taxable income. The account can shelter interest and turnover, but converts preferential gains into ordinary taxable distributions in the practical household result.

Roth accounts receive after-tax money or taxable conversions and can provide qualified tax-free distributions. Under current law, owner Roth IRAs and designated Roth workplace accounts have no lifetime owner RMD. The value of Roth space is highest for assets with strong expected return, long holding periods, and use late in life - but volatility, access, and estate plans still matter.

Taxable brokerage accounts tax interest, dividends, and realized gains under their respective rules. They also provide basis, tax-loss harvesting, preferential long-term gains, charitable transfer opportunities, and

potential basis adjustment at death under current law. A taxable account is not inherently inefficient.

HSAs can receive tax-favored contributions when eligible, grow tax-deferred, and provide tax-free distributions for qualified medical expenses under federal rules. Nonmedical distributions have different tax and penalty treatment. State treatment can differ. An HSA needs its own medical-receipt and beneficiary plan.

Location starts with access

An early retiree cannot put every safe asset in an account that is difficult or costly to reach during the bridge. A household facing large taxable expenses may need high-basis taxable assets even if a spreadsheet says all bonds belong in the IRA.

For every planned withdrawal year, identify:

- account legally available;
- tax created by distribution;
- basis or gain;
- premium-credit or IRMAA effect;
- remaining diversification;
- future RMD consequence.

Tax optimization that leaves no usable cash is not optimization.

Place tax-inefficient income deliberately

Ordinary taxable bond interest, REIT distributions, high-turnover strategies, and some alternatives can create annual tax drag in taxable accounts. Traditional or Roth accounts can shelter current distributions.

But compare expected return. Placing very low-return bonds in Roth may consume scarce tax-free capacity that could hold higher-return diversified equities. Placing all bonds in a traditional IRA can also make the taxable account too volatile for bridge spending.

Use an after-tax expected-value comparison:

after-tax future value = current value × expected growth path × account tax factor - access costs

The inputs are uncertain. Run ranges rather than selecting a location based on a single return forecast.

Municipal bonds do not belong automatically in retirement accounts

Municipal interest may be exempt from federal income tax in a taxable account. Inside a traditional IRA, that exemption generally provides no current benefit; later distributions are generally ordinary income. A taxable Treasury or corporate bond may offer a higher pretax yield for the sheltered account.

Compare after-tax yields, credit, duration, call risk, state tax, and the household bracket. Ruth's municipal bonds inside her IRA failed this comparison. The correction could occur through exchanges inside the IRA without realizing a taxable gain, subject to trading costs and suitability.

Put the rebalancing engine where it can move

Tax-deferred and Roth accounts often allow rebalancing without current capital-gain recognition. Hold enough of the major asset classes inside sheltered accounts to make the household allocation adjustable.

If every bond is in taxable and every stock is in Roth, a bear-market rebalance may require taxable bond sales or be constrained by account balances. Location should permit the policy to operate.

Rebalance across the household, not within every account. One account can hold mostly bonds and another mostly stocks while the combined portfolio stays on target.

Roth is a risk budget, not a place for lottery tickets

Because Roth growth can be tax-free when qualified, investors are tempted to place the most speculative assets there. A total loss wastes irreplaceable Roth space. Extreme gains can also create concentration that is difficult to diversify without changing exposure, even though trades inside the account are not currently taxable.

Use diversified assets with appropriate expected return. Tax-free treatment does not convert speculation into sound allocation.

Account location changes for heirs

Beneficiary rules differ among Roth, traditional, HSA, and taxable assets. Many nonspouse beneficiaries face distribution timelines for inherited retirement accounts. A surviving spouse may have elections unavailable to other beneficiaries. An HSA inherited by a nonspouse generally loses the same continuing tax treatment available to a spouse. Taxable assets may receive basis treatment under current law, subject to ownership and estate rules.

Do not choose location solely for the current owner's tax bracket. Include the likely beneficiary, expected withdrawal period, charitable intent, and state law.

Howard and Lena's charitable goal changes the sequence. Qualified charitable distributions after age seventy and a half can move eligible IRA money directly to qualifying charities within annual limits and can satisfy part of an RMD. Leaving pretax IRA assets to charity can also differ from leaving them to an individual. Their policy should preserve charitable options while providing Lena with simple liquid assets.

Inherited accounts carry a second calendar

An inherited retirement account is not simply another IRA with a new owner. Distribution requirements can depend on the original owner's date of death, whether death occurred before or after the required beginning date, the beneficiary's relationship and status, and whether the account is traditional or Roth. Many nonspouse designated beneficiaries face a ten-year outer deadline, and some also have annual distribution requirements. Spouses and eligible designated beneficiaries may have different choices.

The operating file records the decedent, date of death, account type, original required beginning date, beneficiary category, annual requirement, final distribution deadline, and tax withholding plan. Do not combine inherited IRAs from different owners or assume one custodian's default schedule proves the tax rule.

Preserve employer-stock choices before rolling over

A worker who holds appreciated employer securities inside a qualified plan may have a net-unrealized-appreciation decision. Under qualifying facts, distributing employer securities rather than rolling them into an IRA can produce a different division between current ordinary income and later capital gain. The rules are narrow, the transaction sequence matters, and concentration risk remains even when the tax treatment is attractive.

Before any full rollover, obtain the plan's cost basis, current value, distribution options, Form 1099-R treatment, and professional comparison of rollover, distribute-and-sell, distribute-and-hold, and partial-diversification paths. Once the stock is rolled into an IRA, an opportunity that depended on an in-kind plan distribution may be lost. Tax opportunity is not a reason to keep an unsafe employer-stock concentration; it is a reason to compare before acting.

Write a location hierarchy, not a slogan

An illustrative hierarchy might be:

1. Fund near-term bridge and emergency needs in accessible accounts.

2. Hold tax-inefficient high-quality bonds and REIT exposure in sheltered accounts when it does not compromise access.
3. Use Roth for diversified long-horizon growth and late-life flexibility.
4. Use taxable for high-basis liquidity, tax-efficient equity funds, Treasuries or munis selected by after-tax comparison, and charitable/estate flexibility.
5. Revisit as tax brackets, RMDs, benefit claims, state residence, and heirs change.

The hierarchy is a starting point. The annual withdrawal plan can override it for a specific tax window.

Your action: build the household location map

Create rows for each holding and columns for account, tax character, expected return range, withdrawal year, beneficiary, rebalancing role, and proposed location. Mark assets that can move without tax and assets whose sale would realize gains.

Then test the next ten years of withdrawals. If the most tax-efficient map cannot fund them without penalties, lost credits, or forced gains, revise the map.

The best location is the one that improves after-tax household spending while preserving the ability to act.

Part III - When the market changes first

Chapter 11: A bear market in the first five years

The most dangerous bear market is not necessarily the deepest. It is the one that arrives while the portfolio is funding a large temporary gap and the household has no rule for changing withdrawals.

Mark and Elise retire into that risk. Before both Social Security benefits and Medicare transitions are complete, their portfolio carries more of the household. A decline in year two is more damaging than the same decline after reliable income covers most essentials.

Use a dated stress path

Do not ask whether the plan survives “a bear market.” Define the path.

Illustrative five-year stress:

- year 1 stocks –25%, high-quality bonds –5%;
- year 2 stocks –15%, bonds +2%;
- year 3 stocks +8%, bonds +3%;
- year 4 stocks +12%, bonds +3%;
- year 5 stocks +10%, bonds +3%.

Add actual planned withdrawals, taxes, and benefit starts. Apply withdrawals during each year rather than subtracting one five-year total at the end.

The question is not whether prices eventually recover. It is how many shares are sold before recovery and which spending decisions occur.

Follow the response order

The policy response should occur in this order:

1. Pay scheduled essential expenses from operating cash and maturing safe assets.
2. Stop automatic reinvestment if portfolio income is needed for spending.
3. Measure allocation bands and current withdrawal rate.
4. Reduce or postpone the prewritten flexible categories if a guardrail is crossed.
5. Rebalance using sheltered accounts and maturities where possible.
6. Harvest useful taxable losses while maintaining exposure and respecting wash-sale rules.
7. Recalculate structural decisions only if household facts changed.

Selling all stocks is not on the list. Borrowing to maintain vacations is not on the list. Claiming Social Security immediately can be considered, but only after comparing the permanent benefit effect with the bridge assets preserved.

Spend from the schedule, not from yesterday's winner

If five years of the essential gap were matched before retirement, those assets now perform their job. A Treasury maturity paying during a stock decline is not a failed investment because its yield was lower than the prior bull market's stock return.

Flexible withdrawals can come from portfolio income and overweight assets. When stocks are below the policy band, avoid selling them solely to maintain optional spending. When bonds rally and become overweight, selling bonds can both fund spending and rebalance.

The source is determined by target weights, tax, and the cash schedule - not a rigid “cash first, bonds second, stocks last” sequence that ignores the portfolio.

Use guardrails with amounts

Suppose the Brennans begin with a planned \$18,000 flexible budget. Their policy might state:

- after a year-end portfolio decline greater than 15%, no inflation increase to flexible spending;

- if the current gross withdrawal rate exceeds the stated upper band, reduce flexible spending by \$6,000 for the next year;
- if the essential reserve falls below three fully funded years, suspend large gifts and major travel;
- restore spending only after the withdrawal rate and reserve return within policy.

These are illustrative amounts requiring full plan testing. Their advantage is clarity. “Spend less if necessary” produces debate during the crisis.

Essential spending also deserves examination, but not indiscriminate cutting. Insurance, maintenance, and preventive care can become more expensive when postponed. The policy identifies which expenses move first.

Tax opportunities are not free money

A bear market can create unrealized losses in taxable accounts. Selling a position, realizing the loss, and buying a suitably different replacement can preserve exposure while creating a deduction or carryforward under tax rules.

The wash-sale rule can disallow a loss when substantially identical securities are acquired within the applicable window, including purchases in other household accounts. Automatic reinvestment can accidentally trigger it.

Loss harvesting should not create a worse portfolio, excessive trading, or a future concentrated gain solely for a small current deduction. Record the new basis and replacement security.

Reconsider claims only with the lifetime plan

Starting Social Security during a decline reduces portfolio withdrawals. It also permanently changes the monthly benefit when claimed early. For a higher earner, it can reduce later survivor protection.

Compare:

assets preserved by early claim + benefit received early

with:

value of larger later lifetime/survivor benefit + bridge assets required

Use several lifespans and market paths. Do not let a temporary statement loss make a permanent benefit election without calculation.

If the reserve was never funded

The household may discover the flaw only after the decline. The response is still ordered:

- price immediate essential cash needs;
- stop discretionary outflows;
- use reliable income and portfolio cash flow;
- sell the asset that least damages the policy after tax;
- evaluate limited work, housing, debt, or claim changes;
- rebuild the reserve during recovery.

Pretending the market must rebound before cash runs out is not a strategy.

Your action: conduct the first-five-years drill

Place the actual portfolio at the planned retirement date into a five-year stress table. Apply asset returns, monthly or annual withdrawals, tax, health costs, mortgage, and benefit starts. Record ending balances, allocation, funded reserve years, and required spending cuts.

Then have both spouses or the successor execute the first year's transfer and rebalance on paper. If the process depends on the person who is panicking, simplify it.

A bear market plan is not a prediction of recovery. It is proof that the household can continue while recovery remains uncertain.

Chapter 12: The bull market that makes discipline difficult

Bull markets create a quieter form of retirement risk. The account rises, the withdrawal rate falls, and every expensive choice appears affordable. Concentrated positions look intelligent. Cash feels wasteful. Rebalancing feels like selling a winner.

The danger is not prosperity. It is converting a temporary market value into permanent obligations.

Separate funded improvement from market excitement

When the portfolio reaches a new high, recalculate:

current withdrawal rate = next twelve months' gross distributions ÷ current portfolio

Then run the same calculation after a policy stress decline. A spending increase is durable only if the stressed plan remains acceptable.

Suppose a \$1.5 million portfolio grows to \$1.9 million and the household raises annual recurring spending by \$20,000. At the peak, the extra spending appears to use only 1.05% of the portfolio. After a 30% decline, the portfolio is \$1.33 million and that same permanent increase consumes 1.50%, on top of the original withdrawal.

The issue is not one year's celebration. It is turning a celebration into a recurring mortgage, association fee, insurance bill, family promise, or lifestyle floor.

Refill before upgrading

Use gains in this order:

1. restore operating cash and scheduled maturities;
2. rebalance positions above their upper bands;

3. repair underfunded essential and care reserves;
4. reduce concentration;
5. fund known one-time goals;
6. consider a limited flexible-spending increase under the guardrail;
7. consider additional gifts or legacy allocations.

This order prevents a bull market from financing optional spending while the household's basic defenses remain thin.

Sell concentration according to policy

Nina's employer stock may become a larger percentage because it rises faster than the rest of the portfolio. The gain can make selling emotionally harder and tax more visible. Yet the company's rising price does not reduce the fact that her salary and investments share one source.

Use tax lots, charitable gifts where appropriate, staged sales, and new contributions to diversify. Do not raise the concentration limit after the position crosses it. That converts a risk policy into a performance-chasing rule.

Do not abandon bonds after they lag

When stocks outperform, a balanced portfolio will trail an all-stock portfolio. That is not evidence that bonds failed. They were assigned to withdrawals, volatility control, and rebalancing capacity.

Rebalancing sells part of the appreciated stock allocation and buys the underweight assets. The trade will feel unattractive precisely because recent performance favors stocks. The policy exists for that moment.

If the household truly has greater capacity for risk because a pension began, debt ended, or spending fell, change the strategic allocation after a full plan review. Do not change it because the bull market made loss temporarily invisible.

Use an increase rule for spending

A spending guardrail can allow the household to enjoy success without treating every gain as permanent.

Illustrative rule:

- no recurring increase until the portfolio remains above the upper funding threshold at annual review;
- cap the increase at a stated percentage of prior planned spending;
- first refill all near-term reserves;
- test the higher spending after the policy stress decline;
- use one-time distributions for one-time experiences rather than embedding them in the baseline.

A dynamic method can distribute more after favorable returns and less after poor returns. It must still protect essential spending and state how reductions occur.

Review taxes before taking the gain

Selling appreciated taxable assets can realize gains, change qualified-dividend and capital-gain bands, trigger NIIT, increase taxable Social Security, reduce Marketplace credits, or raise later IRMAA. None automatically justifies holding excess risk.

Compare alternatives:

- sell across two tax years;
- rebalance inside sheltered accounts;
- direct withdrawals and charitable gifts from the appreciated position;
- donate appreciated shares rather than cash when suitable;
- use new contributions or maturities;
- accept the tax because concentration risk is larger.

Tax is one cost in the decision, not a veto.

Turn a market gain into a prosperity budget

The cleanest way to enjoy a strong market is to divide the gain by purpose instead of treating the entire increase as spendable.

Assume a household began the year with \$1.6 million and ended with \$1.92 million after withdrawals. The \$320,000 increase is not

automatically a \$320,000 spending allowance. First compare the ending allocation with policy and calculate the dollar amounts required to return to target. Then price unfunded liabilities and one-time goals.

An illustrative prosperity budget might assign:

Use	Amount	Why it is not recurring spending
Refill two years of scheduled withdrawals	\$90,000	restores the liability plan
Reduce an appreciated employer-stock position	\$70,000	lowers linked household risk
Fund a roof and accessibility work	\$45,000	converts a known future bill into a funded project
One-time family trip	\$18,000	creates enjoyment without a permanent annual promise
Additional diversified growth capital	remainder	supports later inflation and longevity

The figures are not recommended percentages. The sequence is the point: repair resilience, reduce accidental risk, fund dated needs, and only then convert part of success into present enjoyment.

If the household wants a recurring \$12,000 increase, test the full remaining lifetime, not merely the next year. At a simple thirty-year planning horizon, that decision asks the portfolio to support up to \$360,000 of nominal withdrawals before inflation, tax, or investment effects. A seemingly small monthly upgrade can be a large capital commitment.

Watch lifestyle ratchets outside the brokerage account

The most dangerous bull-market purchase is often not a security. It is a second property, larger home, club membership, recurring family subsidy, boat, or private-care promise whose carrying cost continues after markets fall.

Before adding a fixed obligation, calculate:

annual carrying cost = financing + tax + insurance + maintenance + storage/association + travel + hired help

Then stress both the asset value and the household portfolio. A property that can be sold is not automatically liquid; a leisure asset may sell slowly and at a large discount during the same recession that hurts investments.

The bull-market rule is therefore stricter for recurring commitments than for one-time experiences. Spending \$15,000 on a planned family trip can be more responsible than accepting a new \$15,000 annual obligation.

Your action: prepare a prosperity checklist

At each annual high-water review, record allocation drift, concentration, funded reserve years, current and stressed withdrawal rates, unfunded goals, embedded gains, and proposed spending changes.

Ask one question before making a new permanent commitment:

Would we accept this obligation if the portfolio were already 30% lower?

If the answer is no, fund it as a one-time choice or wait. A bull market should increase the household's options, not quietly reduce them.

Chapter 13: Inflation, rate shocks, and stagflation

Inflation does not attack a retirement plan in one place. It raises household costs, reduces the real value of nominal income, changes interest rates, affects business profits, and can alter taxes and insurance premiums. One “inflation hedge” cannot repair all five.

The correct response begins with the spending side.

Measure personal inflation

A national consumer index is useful for economic measurement and benefit adjustments. It is not Ruth's budget.

Calculate a household rate:

personal inflation = $\Sigma(\text{spending-category weight} \times \text{category price change})$

If housing costs are largely fixed, food and travel inflation may dominate. If property insurance, rent, prescription drugs, and home services are rising rapidly, the household rate can exceed the headline figure. A retiree planning major international travel also has currency exposure that a domestic index does not capture.

Update essential and flexible categories separately. Essential inflation changes the required floor; flexible inflation can be answered with substitution, delay, or a lower quantity.

Divide income by inflation behavior

Label every reliable payment:

- formally inflation-adjusted;
- fixed nominal;
- adjustable at the payer's discretion;

- market-dependent.

Social Security receives cost-of-living adjustments under federal rules, though the household's expenses can move differently. Ruth's pension is fixed. An immediate annuity can be fixed, stepped, or inflation-adjusted depending on the contract. Rent can rise, but so can vacancy, repair, tax, and insurance.

Project the real value of fixed payments:

$$\text{real payment in year } n = \text{nominal payment} \div (1 + \text{inflation})^n$$

At 4% inflation, a fixed \$30,000 pension has purchasing power of about \$20,270 in today's dollars after ten years.

The portfolio must replace the erosion or the spending plan must adapt.

TIPS hedge measured inflation, not every household bill

Treasury Inflation-Protected Securities adjust principal using the applicable inflation index. Coupon payments apply to adjusted principal. Held to maturity, they can be used to match a real federal-government-backed payment stream subject to their terms.

TIPS prices still move when real yields change. A long-duration TIPS fund can decline even during high inflation if real yields rise sharply. In taxable accounts, inflation adjustments can create current federal taxable income before principal is received.

Use individual TIPS maturities for dated real liabilities or a fund for diversified real-rate exposure. Match duration and account location to the job.

I bonds also have inflation-linked terms but carry annual purchase limits, a one-year redemption restriction, and an early-redemption interest forfeiture during the first five years. They can build a household reserve over time; they cannot instantly absorb a large portfolio allocation.

Nominal bonds suffer differently across inflation paths

Unexpected inflation can push yields higher and nominal bond prices lower. Shorter maturities generally have less price sensitivity and reinvest sooner at new rates. Long bonds lock nominal cash flow but expose more price and purchasing-power risk.

Do not sell every nominal bond after rates rise. The new yield can improve future return, and a maturity ladder continues paying on schedule. Reassess only if the household liability changed or the duration never matched it.

A barbell of very short cash and very long bonds is not automatically safer than an intermediate ladder. Calculate duration and payment dates.

Stocks are long-run inflation participants, not immediate hedges

Companies can raise prices, innovate, and grow nominal revenue. They also face higher labor, input, financing, and tax costs. Profit margins can compress. Valuations can fall when interest rates rise.

Broad equities can protect purchasing power over long horizons, but they may decline during an inflation shock. That is why next year's essential spending is not assigned to them.

Favor diversification over selecting a handful of companies marketed as “inflation winners.” Today's beneficiaries can become tomorrow's overvalued holdings.

Real estate and commodities have specific channels

Property rents and values can respond to inflation, but leases, financing, maintenance, insurance, local supply, taxes, and capitalization rates determine the result. A highly leveraged property can be harmed by refinancing even when rents rise.

Commodity futures can respond strongly to supply shocks, but their returns include contract-roll and collateral effects. Gold can respond to

real rates and monetary distrust but does not reliably match annual consumer inflation.

These assets can diversify an inflation shock. None replaces cash for a dated bill or TIPS for a specifically indexed liability.

Stagflation tests every sleeve

Stagflation combines weak growth with persistent inflation. Stocks can suffer from weak demand and margin pressure. Nominal bonds can suffer from rising yields. Cash can lose purchasing power. Credit risk can rise.

The household response is broader than buying commodities:

1. reprice essential spending;
2. preserve near-term liquidity;
3. maintain the TIPS and short-maturity schedule;
4. rebalance only at policy bands;
5. reduce flexible spending according to guardrails;
6. avoid new leverage and weak credit;
7. protect insurance and home maintenance that become costlier after neglect;
8. delay large optional commitments until the real cash flow stabilizes.

The allocation may contain assets that all decline temporarily. The protection comes partly from time matching and spending flexibility, not a perfectly negative correlation.

Stress taxes and brackets in nominal dollars

Many federal thresholds are indexed, but not all. Social Security provisional-income thresholds and NIIT thresholds are prominent examples that can pull more retirees into tax over time. Medicare and state rules follow their own schedules.

An inflation projection that raises spending and benefits while leaving every tax threshold unchanged or indexed by the same rate is internally inconsistent. State the treatment of each threshold.

Your action: run three inflation paths

Model:

- temporary 5% inflation falling toward 2.5%;
- persistent 4% inflation for ten years;
- stagflation with high inflation and poor stock/bond returns in the first five years.

For each path, update essential spending, nominal pension purchasing power, Social Security assumptions, bond maturities, TIPS cash flows, taxes, and flexible cuts. Record which decision changes first.

Inflation protection is not an asset label. It is the combined ability of income, investments, spending, and taxes to preserve the life the household considers essential.

Chapter 14: Recession, deflation, and a long sideways market

Retirement plans are often tested against a crash and a recovery. A long period of weak growth can be harder psychologically because no single event announces when patience should end.

Recession, deflation, and sideways markets are different conditions. They can overlap, but the portfolio response should address the actual household risk.

Recession begins with income and credit

For a working household, recession can damage the paycheck before the portfolio. Nina's stress test combines job loss, reduced bonus, falling employer stock, and more expensive health coverage. Diversification across funds does not solve employment concentration.

For a retired household, recession can reduce corporate earnings, dividends, property demand, and credit quality. Social Security and a strong pension can stabilize spending. A weak private borrower or overleveraged rental property can fail at the same time stocks fall.

The recession response is:

- secure the next twelve months of cash;
- verify credit quality and maturities;
- reduce optional spending under the policy;
- avoid extending new loans to family from essential reserves;
- rebalance only within bands;
- review counterparty and employer exposure;

- preserve insurance and health coverage.

Deflation changes the value of nominal promises

During broad price declines, fixed nominal cash flows gain purchasing power. High-quality nominal bonds can perform well when yields fall, though credit stress can offset rate gains. Debt becomes harder for borrowers because the nominal payment does not fall with income.

TIPS principal can adjust downward with deflation under their mechanics, while individual TIPS have a maturity floor based on original principal under Treasury terms. Market prices still move. Cash preserves nominal value but can face near-zero reinvestment rates.

A retiree with a fixed pension may feel temporarily protected, while a landlord or business owner experiences falling income. Do not translate “deflation helps bonds” into “all fixed income is safe.” Issuer quality matters more when revenue contracts.

A sideways market exposes fee and spending drag

Suppose stocks produce little price appreciation for ten years while paying uneven dividends and experiencing repeated declines. A retiree withdrawing 4% or 5% annually can lose capital even without a dramatic crash.

The basic identity is:

$$\text{ending portfolio} = \text{beginning portfolio} + \text{total return} - \text{withdrawals} - \text{fees} - \text{taxes}$$

When total return is low, fees, taxes, and distributions consume a larger share of the result. This is the environment in which unnecessary complexity becomes visible.

Review fund expense ratios, advisory fees, product charges, trading costs, tax turnover, cash drag, and overlapping holdings. A 1% avoidable annual cost is not a rounding error when expected real return is modest.

Do not manufacture income

Sideways markets make high-distribution products attractive. Covered-call funds, high-yield debt, leveraged closed-end funds, mortgage products, preferred securities, and structured notes can display cash yields that appear to replace missing return.

The distribution may include option premium, credit compensation, leverage, capital gains, or return of capital. It can limit upside, magnify loss, or reduce net asset value.

Analyze:

$$\text{economic return} = \text{ending value} + \text{cash distributions} - \text{beginning value}$$

Then subtract tax and cost. A 10% distribution with a 7% decline in value did not create a 10% return.

Rebalance by range, not by calendar optimism

In a long sideways market, weights can cross bands repeatedly. Use cash flows and tax-aware trades. Avoid increasing risk simply because a fund has “gone nowhere” and feels due to rise.

Review the plan annually, but do not redesign it annually. A structural change requires a structural reason: spending, income, horizon, tax, health, or evidence that an investment no longer performs its assigned role.

Housing and care remain economic activity

A recession can make selling a home, business, or rental property slower and less profitable. A plan that assumes immediate conversion at appraised value is fragile.

Stress sale price, marketing period, repair, closing costs, rent during transition, and tax. If home equity is the later-care reserve, identify a backup for the period before sale.

Care needs may not wait for asset markets. This is one reason essential reserves cannot consist entirely of illiquid property.

Use a decade test

Model ten years with low nominal returns, recurring volatility, and normal withdrawals. Include inflation at a modest but positive rate rather than assuming deflation permanently reduces spending. Apply fees and taxes explicitly.

Then answer:

- Which spending is reduced, and when?
- Which assets fund each year?
- Does the household sell illiquid property?
- Do RMDs exceed spending?
- Does the survivor remain funded?
- Which costs can be removed without changing the life?

A portfolio can survive a crash and fail a grind. The defense is not a prediction of the next bull market. It is a low-cost, liquid, diversified system with spending that can respond.

Part IV - Turn return into spending

Chapter 15: Fixed withdrawals, guardrails, and flexible spending

A withdrawal method is a contract between today's household and its future selves. It decides who receives the benefit of strong markets and who absorbs weak ones.

No method can guarantee high current spending, perfect inflation protection, a large legacy, and immunity from market loss. Each chooses which objective bends.

Fixed real spending protects lifestyle first

The classic method chooses a first-year dollar withdrawal and increases it with inflation regardless of portfolio return.

$\text{withdrawal}_t = \text{withdrawal}_1 \times \text{cumulative inflation through year } t$

Its strength is a stable real spending path. Its weakness is inflexibility during poor sequences. Research estimates such as a 3.9% 2026 base case depend on horizon, allocation, return assumptions, and success criterion. They are not universal safe rates.

Use the initial rate as a diagnostic:

$\text{initial rate} = \text{first-year gross portfolio distribution} \div \text{retirement-date portfolio}$

Then test actual taxes, benefit changes, and irregular expenses. A fixed-real rule applied to all spending can overprotect travel while underrepresenting care.

Percentage-of-portfolio spending protects capital first

A retiree can withdraw a fixed percentage of the current portfolio each year:

$\text{withdrawal}_t = \text{stated percentage} \times \text{current portfolio}_t$

This prevents a fixed-dollar withdrawal from overwhelming a depleted portfolio. Income becomes volatile. After a large decline, the spending cut can be too severe for housing and health.

Use it for flexible spending more readily than for the essential floor.

Guardrails share adjustment

A guardrail method begins with planned spending and changes it when a funding measure crosses boundaries.

One version uses current withdrawal rate:

current rate = coming-year gross distribution ÷ current portfolio

If the rate exceeds the upper boundary, reduce flexible spending or freeze inflation increases. If it falls below a lower boundary after strong returns, allow a measured increase.

The policy must define:

- measurement date;
- upper and lower thresholds;
- size of increase or decrease;
- spending categories affected;
- treatment of essential inflation;
- restoration rule;
- maximum cut the household accepts.

Without those details, “use guardrails” is not executable.

Compare three methods on the same household

Suppose a retiree begins with \$1.2 million and needs \$48,000 gross from the portfolio. The starting rate is 4%. After one year of poor returns and the distribution, assume the portfolio is \$936,000. Inflation was 4%.

Under a fixed-real method, next year's planned distribution is:

$\$48,000 \times 1.04 = \$49,920$

That equals 5.33% of the new balance. The method protects planned purchasing power but places more pressure on the impaired portfolio.

Under a fixed 4% percentage-of-portfolio method, next year's distribution is:

$$\$936,000 \times 4\% = \$37,440$$

The portfolio receives protection, but household cash falls \$12,480 below the fixed-real amount. That cut may be unacceptable if the entire withdrawal funds essential expenses.

Under an illustrative guardrail method, the household might calculate the \$49,920 request, compare its 5.33% current rate with an upper boundary chosen during planning, freeze the inflation adjustment, and reduce only the \$12,000 flexible layer by 10%. The next distribution would be:

$$\$36,000 \text{ protected floor} + \$10,800 \text{ flexible layer} = \$46,800$$

The result lies between the other two. It is not inherently superior. It works only because the household distinguished essential and flexible dollars before the decline.

Now reverse the market. If the portfolio rises to \$1.5 million, a fixed 4% rule pays \$60,000 even if the household does not value the extra consumption. A guardrail may instead refill care or housing reserves, make a one-time gift, or permit only a measured increase. A method should express the household's priorities in both directions.

Irregular expenses need their own withdrawal rule

Annual spending methods are often tested with a smooth number, while actual retirees replace a roof, help a child, buy a car, move, or pay a large dental bill. Treating each event as an exception makes the modeled withdrawal rate fictional.

Use three categories:

- funded irregulars: dated reserves already held outside the annual withdrawal;

- probable but undated costs: annual sinking funds included in the spending plan;
- true shocks: events handled by contingency capital, insurance, housing choices, or a temporary guardrail response.

When a \$40,000 roof reserve is already excluded from the investable spending portfolio, paying for the roof is not a 4% rule failure. When no reserve exists and the full cost comes from an IRA, the gross distribution and tax belong in that year's withdrawal burden.

Guardrails must survive household disagreement

Couples can accept a reduction in theory and fight about which expense disappears. Write the dollar list, decision authority, and appeal rule in calm conditions. If one spouse considers travel essential and the other considers gifts essential, the spreadsheet cannot settle the value judgment during a crash.

Use a maximum annual reduction that the household considers livable. If the modeled plan requires a 35% lifestyle cut after an ordinary bear market but the household will accept only 10%, the method is not flexible enough to rescue an aggressive starting withdrawal. Change the starting plan.

Floor-and-upside spending fits real households

Separate spending into:

- essential floor funded by reliable income and matched assets;
- planned lifestyle distribution;
- contingent upside funded only after portfolio conditions are met.

Ruth's housing, food, health, and transportation remain protected. Travel and gifts respond. Howard and Lena's charitable giving can use QCDs and annual limits; a large family gift belongs to contingent capital.

This method acknowledges that retirees do not value every dollar equally.

RMDs are not a spending rule

An RMD is a tax distribution requirement. It does not state how much the household can safely spend. A retiree can distribute the RMD, pay tax, and reinvest the remainder in taxable assets. Another household may need more than the RMD for spending.

Do not let a tax rule replace the investment and spending policy.

Use gross and net amounts consistently

If taxes are paid from the portfolio, the withdrawal rule must use gross distribution:

gross distribution = net spending + federal tax + state tax + premiums paid from portfolio

Comparing net spending with a research withdrawal rate based on gross portfolio withdrawals understates the burden.

Likewise, Social Security and pension income should enter after tax when compared with after-tax expenses.

Define cuts before the market falls

Create three lists:

Immediate pause: large gifts, luxury travel, vehicle upgrade, elective renovation.

Moderate reduction: dining, routine travel, subscriptions, discretionary services.

Protected: housing, health coverage, food, utilities, required transportation, insurance, essential maintenance.

Assign dollar amounts. A 10% spending cut is meaningless if no one knows whether it comes from medicine or travel.

Your action: choose the bending point

Write which objective changes first after poor returns: current flexible spending, future legacy, retirement date, housing, or investment risk. Then select the method that implements that priority.

Run it through the actual first ten years with taxes and benefits. A withdrawal policy succeeds when the household can follow both the increases and the reductions - not when a simulation prints a high percentage.

Chapter 16: Which account pays this year

A retirement portfolio is not one account. It is a set of tax contracts. The same \$20,000 of spending can create very different tax, premium, and future-balance consequences depending on whether it comes from checking, a taxable brokerage account, a traditional IRA, a Roth account, an HSA, or an annuity.

That is why the familiar instruction to “spend taxable first, then tax-deferred, then Roth” is too crude. It may be a useful baseline. It is not a rule.

The better question is: Which combination funds this year's life at the lowest reasonable lifetime cost while preserving enough flexibility for later years?

Start with the household cash equation

Build the year from uses of cash, not from account balances:

gross cash needed = spending + taxes + planned gifts + debt payoffs + reserves added – reliable net income

Reliable net income includes Social Security, pension, wages, annuity payments, rental cash flow after expenses, and other recurring receipts. Do not subtract a gross benefit from an after-tax budget.

Then identify distributions that will occur whether or not you need the cash:

- required minimum distributions;
- scheduled pension or annuity payments;
- dividends and interest paid to cash;
- installment-sale receipts;

- maturing bonds or CDs;
- stock compensation or deferred compensation already due.

The remaining gap is the amount that the withdrawal plan must deliberately create.

Fill tax bands; do not empty accounts by habit

Traditional-account withdrawals are generally ordinary income. Roth distributions may be tax-free if qualified. Taxable-account sales create gain or loss only on the difference between proceeds and adjusted basis. Cash principal is not income merely because it is spent.

This allows a blended withdrawal. A household might use:

- cash and short Treasuries for the next twelve months;
- a traditional IRA distribution to use a chosen ordinary-income band;
- high-basis taxable lots for the rest;
- a Roth distribution to prevent a one-time expense from crossing an expensive threshold.

The objective is not zero tax this year. A very low-tax year can be a wasted opportunity if it leaves a large pretax balance to collide later with RMDs, a surviving spouse's narrower brackets, or Medicare income adjustments.

Define an annual ordinary-income ceiling before selling anything:

ordinary-income room = selected ceiling – projected ordinary income before discretionary withdrawals

The selected ceiling may be the top of a federal bracket, an ACA income boundary before Medicare, an IRMAA planning boundary after Medicare, or a household-specific marginal-cost ceiling. It is a planning choice, not always a statutory line.

Taxable accounts require lot-level decisions

The brokerage statement's total gain is not enough. For each available lot, record:

unrealized gain = current value – adjusted tax basis

gain ratio = unrealized gain ÷ current value

If \$30,000 of one lot has a \$27,000 basis, selling it realizes \$3,000 of gain. A \$30,000 lot with a \$9,000 basis realizes \$21,000. Both fund the same spending; they do not create the same return.

Use specific-lot identification when the custodian supports it and confirm the selected lot before settlement. Default cost-basis methods can defeat the plan. Preserve purchase and reinvestment records, especially after account transfers.

High-basis lots often make useful bridge assets. Low-basis shares may be better donated, held for a later low-income gain-harvesting year, or retained for estate considerations after legal review. None of those choices is automatic: concentration risk can justify realizing a large gain now.

Rebalancing and spending should be one transaction

Do not sell proportionally from every holding merely because the household needs cash. Compare the portfolio with its target bands first.

If stocks are above target, the withdrawal can come from appreciated stock. If stocks are below target after a bear market, cash and maturing high-quality bonds can fund the distribution while dividends and new cash flows rebalance toward stocks. If no asset is outside its band, sell from the sleeve whose reduction creates the least tax and strategic damage.

The decision sequence is:

1. calculate the cash gap;
2. reserve unavoidable taxable income;
3. choose the year's tax and premium ceilings;
4. identify overweight assets;
5. select accounts and lots;
6. restore the cash reserve only to its policy target;
7. document what was sold and why.

This converts a withdrawal into maintenance of the portfolio rather than a separate emergency.

Roth money is flexibility, not a museum piece

A Roth account is valuable because qualified withdrawals do not add to taxable income. That makes it useful for:

- a roof, vehicle, or family emergency in a high-income year;
- spending during an ACA-sensitive year;
- limiting a Medicare premium increase;
- reducing the survivor's future pretax concentration;
- funding late-life care without forcing a large ordinary-income distribution.

Preserving every Roth dollar until death can be rational for some estates. It can also force the retiree to overpay tax or underuse life. State law, beneficiary rules, the owner's age, the account's five-year status, and distribution ordering all matter. Treat Roth assets as strategic reserves with written uses, not forbidden money.

HSA withdrawals need receipts and a purpose

After HSA eligibility ends, the account can remain invested and reimburse qualified medical expenses tax-free under applicable rules. Keep receipts, proof that an expense was qualified, evidence that it was incurred after the HSA was established, and proof it was not reimbursed elsewhere or deducted.

An HSA can function as a medical reserve. It should not be counted twice - once as general spending money and again as the fund for future care. Nonqualified distributions after age sixty-five avoid the additional penalty but are generally taxable; that does not make them equivalent to qualified reimbursements.

RMD cash can be redirected

An RMD is a required distribution, not required consumption. After withholding and spending needs, excess cash can move to a taxable account and be reinvested according to the target allocation. Qualified charitable distributions may satisfy eligible charitable intent and count toward an RMD when statutory requirements are met, but timing, age eligibility, direct transfer, annual limits, and documentation matter.

If an RMD will fund the year, avoid simultaneously selling other assets simply because an automatic withdrawal was left running.

Withholding can solve a payment problem

Federal and state withholding can be taken from certain retirement distributions. Withholding is generally treated as paid throughout the year for federal estimated-tax purposes, which can make a later distribution useful in addressing a payment shortfall. This is a payment-timing tool, not a reduction in tax.

Coordinate withholding with estimated payments, pension withholding, Social Security withholding elections, and prior-year safe-harbor requirements. A tax professional should verify the calendar and state treatment when amounts are material.

Apply the sequence to Ruth

Ruth receives \$51,000 of annual Social Security and pension before tax. Her essential, flexible, and charitable outflows total \$77,600 before income tax. Her gross gap is not simply \$26,600 because taxes must be added and the tax treatment of Social Security depends on other income.

Her operating sequence is:

1. direct pension and Social Security to checking;
2. set aside a property and insurance reserve rather than treating those bills as surprises;
3. use an eligible direct charitable transfer after confirming QCD requirements instead of writing every charitable check from after-tax cash;
4. calculate the remaining ordinary-income room and future RMD path;
5. sell specific taxable lots or take a measured IRA distribution for the balance;
6. reserve Roth money for later shocks and years when added ordinary income is unusually costly;
7. rebalance once, as part of those transactions.

The exact mix is recalculated annually. The process stays fixed.

Your action: create a distribution ticket

Before each material withdrawal, complete one page with:

- net cash required and payment date;
- projected income before the withdrawal;
- federal and state effect of each candidate source;
- benefit or premium threshold affected;
- asset-allocation effect;
- lot basis and holding period;
- withholding or estimated payment;
- balance left in the account;
- reason this source is preferred.

A retiree should be able to hand that page to a spouse, adviser, or tax preparer and receive the same answer. If the decision exists only in one person's head, it is not yet a retirement-income system.

Chapter 17: Tax moves that belong inside the portfolio calendar

Taxes do not sit beside the portfolio. They change its cash flows, asset location, rebalancing choices, and the amount that remains invested. But “tax efficient” does not mean “pay the least tax this April.” It means avoiding unnecessary lifetime tax and collateral costs without distorting the investment plan.

The calendar matters. A sound move executed on the wrong date can fail.

Build one annual tax map

At the beginning of the year, list known items by month:

- wages, severance, pension, Social Security, and annuity income;
- RMDs and QCD intentions;
- interest and expected fund distributions;
- business, rental, and installment income;
- planned asset sales;
- Roth conversions;
- charitable gifts;
- Medicare or Marketplace coverage period;
- estimated payments and withholding;
- the date each spouse changes filing or benefit status.

Update the map in September and again before the final practical trading and processing deadlines. Do not wait until the last market day of December to request a conversion, QCD, or distribution.

Harvest losses without manufacturing risk

A tax-loss harvest sells an investment below its adjusted basis and uses the realized loss under tax rules. It should also preserve market exposure and the investment policy.

For each proposed trade calculate:

realized loss = sale proceeds – adjusted basis – transaction costs

The result is negative for a loss. Then identify current and expected gains, loss carryforwards, ordinary-income interaction, state treatment, and replacement exposure.

The wash-sale rule can disallow a loss when substantially identical securities are acquired within the restricted window, including acquisitions the household overlooks through automatic reinvestment or another account. Spouse accounts and IRAs require special care. A disallowed loss involving an IRA can be particularly damaging because the normal basis adjustment may not rescue it in the same way.

Turn off dividend reinvestment when necessary, inspect every household account, and use a replacement that maintains the desired exposure without assuming two funds are safely different merely because their tickers differ.

Do not harvest a \$900 loss if trading, spread, time, and tracking complexity cost more than the likely benefit.

Harvest gains for a stated reason

Realizing a long-term gain at a favorable rate can reset basis and reduce a future embedded liability. The gain still adds to adjusted gross income and may change taxation of Social Security, ACA subsidies, Medicare premiums in a later year, net investment income tax, state tax, or other deductions and credits.

Use a marginal stack, not the capital-gain rate in isolation:

all-in marginal cost = added federal tax + added state tax + added premiums – added credits or deductions preserved

The subtraction term can be negative when a credit is lost; the point is to count every consequence. Model gains in increments rather than assuming the entire sale has one rate.

Roth conversion is a portfolio transfer with a tax purchase price

A conversion moves value from a pretax account to a Roth account and generally creates ordinary taxable income. It does not create spendable wealth by itself. The household pays tax now to change the future tax character of the money.

Measure the conversion with:

net amount reaching Roth = gross conversion – tax paid from the conversion

Paying tax from outside funds may preserve more Roth principal, but it uses liquid capital and may realize gains. Compare both cases.

The decision depends on current marginal cost, expected future distributions, RMDs, survivor brackets, state residence, charitable plans, heirs, Medicare or ACA effects, and the value of liquidity. A conversion can be excellent at a 22% federal bracket and poor at the same bracket once a subsidy loss or premium surcharge raises the real marginal cost.

Conversions generally cannot be undone by recharacterizing them. Size them in tranches, verify year-to-date income, and leave room for late forms and fund distributions.

Coordinate RMDs before converting

When an RMD applies, the required amount generally must be distributed and cannot be converted. Complete or reserve for it before setting the conversion amount. Confirm which accounts may be aggregated and which require separate distributions; IRA and employer-plan rules are not interchangeable.

A first RMD delayed into the following year can cause two RMDs in one calendar year. Model the combined income before choosing the delay.

Charitable method changes the tax result

Cash, appreciated securities, donor-advised funds, and QCDs solve different problems.

- Donating appreciated securities may remove embedded gain and support an itemized deduction subject to applicable rules.
- A donor-advised fund can bunch several years of giving but does not make grants to the donor and is not a personal checking account.
- A QCD moves eligible IRA funds directly to an eligible charity, may count toward an RMD, and can keep the amount out of adjusted gross income when requirements are met.
- Writing a personal check uses after-tax cash and may provide no incremental federal deduction for a household taking the standard deduction.

Do not make the same gift twice in the plan. If a QCD funds Ruth's \$8,000 charitable target, that \$8,000 is not also a spending withdrawal.

Asset location must survive tax reality

High expected return does not automatically mean “put it in Roth,” and bonds do not always belong in pretax accounts. Allocation, expected return, tax rate, turnover, credit quality, liquidity, and future withdrawal source interact.

Compare accounts on after-tax economic exposure. If \$100,000 in a traditional IRA will face a 25% combined marginal tax when distributed, the household does not have the same spendable claim as \$100,000 in a qualified Roth account. Do not haircut the pretax account for net-worth reporting and then also reduce its return as though tax were paid every year; that counts tax twice.

Municipal bonds inside a traditional IRA usually waste their federal tax-exempt feature. A high-turnover taxable fund can create avoidable annual distributions. Yet moving assets may require sales, gains, or changes in risk. Improve location through new cash flow, rebalancing, distributions, and carefully chosen realization - not through an indiscriminate liquidation.

Tax law is an input with an expiration date

Record the tax year beside every threshold. Indexing, legislation, filing status, and agency guidance change. State treatment can differ from federal treatment. A table without a year is unsafe.

For decisions that cross years, calculate at least three cases:

1. current law and current residence;
2. a higher future marginal rate or narrower filing status;
3. a lower-income year with an intentional conversion or gain.

The purpose is not to predict Congress. It is to avoid a plan that works only if today's brackets remain untouched for thirty years.

Howard and Lena need fewer moves, not more tricks

Their \$1.525 million pretax balance, RMDs, charitable goal, and survivor exposure justify a multi-year tax plan. Their twenty-seven holdings and seven accounts argue against adding complexity.

Their annual meeting should decide, in this order:

1. cash required after Social Security and pension;
2. RMDs and charitable transfers;
3. withholding;
4. whether a partial conversion improves the survivor path after all premiums and taxes;
5. which positions can be consolidated without unnecessary gain;
6. where the excess RMD cash will be reinvested;
7. whether Lena can operate the result alone.

A tax maneuver that saves \$1,200 but adds another account, unfamiliar product, or monitoring task may reduce household resilience.

Your action: hold a September tax meeting

Bring the year-to-date pay stubs and distributions, the prior return, current basis report, realized gain/loss report, RMD status, charitable plan, insurance income limits, and a projection through December.

Approve each transaction with four numbers: cash created, current all-in tax cost, expected future benefit, and remaining flexibility. If no one can explain the move without the product brochure, do not execute it yet.

Chapter 18: Housing, home equity, and the care reserve

The home is simultaneously shelter, expense, asset, location, family memory, and possible source of capital. A retirement plan becomes misleading when it treats the house as fully spendable wealth while leaving the owner inside it for life. It is equally misleading to ignore a large home that the household intends and is able to monetize.

Use two balance sheets: the liquid retirement balance sheet, which funds ordinary withdrawals, and the housing-and-care balance sheet, which records equity, access costs, replacement housing, and late-life options. Move equity into the liquid plan only when a defined transaction makes it available.

Calculate net usable equity

Start with a conservative sale estimate:

net sale proceeds = sale price – mortgage payoff – selling costs – repairs – moving cost – tax due

Then subtract replacement housing:

usable released equity = net sale proceeds – purchase or entry cost – setup reserve

If the household rents, replace purchase cost with deposits and the annual budget effect of rent, insurance, moving, and expected increases. If it enters a continuing-care community, separate the entrance fee, refundable portion, monthly fee, services, and conditions for higher care levels. Gross equity is not available retirement capital.

Staying is an active strategy

“We will stay forever” still needs a budget. Include property tax, insurance, routine maintenance, major replacements, accessibility work, paid household help, transportation after driving stops, in-home support, and temporary relocation.

Estimate large components individually. A percentage-of-value maintenance rule can be a placeholder, but an old roof, coastal exposure, elevator need, or inaccessible bath deserves its own line. Test the home with one spouse gone. The survivor may afford the property yet be unable to manage it.

Downsizing must release cash or work

A smaller home that costs almost as much can still be a good move if it removes stairs, yard work, storm exposure, or distance from care. A cheaper home with high dues, insurance, transportation, or deferred maintenance may fail to improve cash flow.

Score each option on net capital released, annual cost change, accessibility, access to care and daily needs, and operability after death or driving loss. The right housing decision is not always the lowest purchase price.

A reverse mortgage is borrowing, not found income

For an eligible homeowner, a reverse mortgage may provide a line, advances, or lump sum while allowing occupancy under contract conditions. Interest and fees accrue against equity. Taxes, insurance, maintenance, and other obligations continue. The balance generally becomes due after specified events such as sale, death, or loss of qualifying occupancy.

Evaluate current written offers and required counseling. Compare costs, rate terms, line rules, non-borrowing-spouse protections, occupancy requirements, a long care absence, heirs' options, and remaining equity under several longevity and home-price paths.

It can be a contingency for strong equity and weak liquid cash flow. It is not a substitute for an unaffordable property or a missing care plan.

Reserve for care without double counting

Create a care reserve from specific assets or insurance benefits. Remove that amount from dollars supporting discretionary spending. If the same \$200,000 is shown as both travel capital and care capital, the plan contains \$200,000 that does not exist.

annual care draw = care services + continuing housing + tax – income continuing – spending that stops – insurance benefit

For a couple, retain the healthy spouse's costs. Model home care, assisted living, and a higher-support setting with local quotes. The objective is not to predict which occurs. It is to learn what the portfolio and housing plan can absorb.

Home equity may arrive too late

A move can take months. A cognitively impaired owner may not be able to initiate it. Family conflict, title problems, repairs, a weak market, or occupancy can delay proceeds.

If future care depends on the home, confirm title and insurance, maintain legal authority for an agent, document property information, identify two realistic residences, estimate twelve months of interim funding, and state the trigger for moving. “Sell if needed” is not a plan until someone can execute it.

Housing includes insurance, transportation, and a human operator

Property tax and mortgage payments are visible. Insurance availability, deductibles, flood or wildfire exposure, association assessments, major systems, and the cost of reaching food and care can change the result faster. A paid-off home that requires two cars, extensive maintenance, or an unaffordable policy is not cost-free housing.

Run the housing budget after loss of driving and after the more capable household operator is gone. Add rides, delivery, property management,

snow or yard service, security, repairs, and paid help. A house may remain financially affordable while becoming physically unworkable.

For a solo homeowner, name the person or professional who notices a failed furnace, insurance cancellation, unpaid tax, or unsafe condition. If no one has accepted that role, include a paid coordination allowance and a monitoring procedure. Independence is more durable when it does not depend on being unnoticed.

Reserve settlement cash that does not require a fire sale

Death creates expenses before every asset transfers smoothly: final bills, property security, travel, legal and accounting work, deductibles, funeral or memorial choices, and continuing household costs. The amount is personal, but the need for accessible cash is predictable.

Do not assume an executor or survivor can instantly use an individually titled account. Keep a documented source of near-term liquidity consistent with ownership, beneficiary, and state-law advice. This reserve is not the same as a long-term inheritance target.

Apply the test to Howard and Lena

Their paid-off Oregon home is estimated at \$830,000 but excluded from the \$2.35 million liquid portfolio. That is correct for base spending because no sale is planned.

Their review asks whether Lena can manage the home alone, what accessibility work is needed, what in-home support costs locally, and which move would release usable capital. If the home becomes a care reserve, the policy identifies bridge money while a transaction is pending.

The home strengthens options. It does not excuse the twenty-seven-position portfolio from producing an operable cash flow today.

Your action: write the housing trigger

Choose observable events: inability to use stairs, loss of driving, carrying cost above a limit, daily-care need, death of a spouse, or reserve below its floor. State who acts, which option is evaluated, where interim cash comes from, and what may not be sold under pressure.

Chapter 19: Concentration, complexity, and products that do not belong

Retirees often take more risk through ownership structure than through their stated stock allocation. One employer stock, rental market, bank, adviser, partnership, or insurance contract can dominate the outcome while the pie chart still looks diversified.

Diversification is not the number of line items. It is the number of independent risks that can hurt the household.

Measure concentration three ways

portfolio concentration = exposure ÷ investable assets

net-worth concentration = exposure ÷ total net worth

income concentration = income tied to source ÷ recurring household income

Employer exposure can appear in wages, bonus, plan stock, brokerage shares, deferred compensation, and pension. A rental can concentrate capital, income, location, liability, and unpaid labor. Deposits beyond applicable protection create institution exposure even when labeled cash. Combine linked exposures before judging them.

Set a reduction rule before the price moves

A concentration plan needs a target maximum, deadline or sale cadence, tax-lot order, treatment of new grants, trading restrictions, price-independent sales, destination allocation, and exception authority.

“Sell when it recovers” is not a rule. Neither is “sell if it falls.” Those instructions trap the owner between greed and regret.

For taxable holdings, compare one-time tax with permanent risk removed. Low basis makes diversification expensive, not unnecessary. Charitable gifts, staged sales, option exercises, hedging, and estate choices need tax and legal review when material.

Nina's real allocation includes her career

Nina has \$110,000 of employer stock, 14.6% of investable retirement assets, while salary and future compensation depend on the same company. The stock percentage understates the link.

Her policy sends new money to diversified assets and taxable bridge liquidity, stops automatic accumulation where allowed, and sells existing shares on a lot-aware calendar. College accounts remain outside retirement capital. Her low-rate mortgage does not justify keeping employer shares.

The purpose is not to predict the company. It is to prevent one event from damaging her job, portfolio, health coverage, and retirement date at once.

Complexity is a measurable liability

Count institutions, accounts, holdings, surrender schedules, annual elections, logins, tax forms, manual transfers, and people able to explain the system. Then perform the thirty-day absence test: if the financial operator vanished for a month, would bills be paid, cash arrive, fraud be noticed, and required distributions continue?

Complexity may be justified by plan features, insurance benefits, tax lots, or institutional diversification. Every extra element must earn its maintenance cost.

Product screening begins with the job

Before evaluating a fund, annuity, note, partnership, option strategy, private-credit offering, or insurance product, write its job in one sentence. Examples: fund five years of essential withdrawals; provide lifetime income; diversify public equity; insure a death benefit; hold emergency cash.

Reject a product if the seller cannot provide in writing all costs, liquidity terms, risks, tax treatment, valuation method, conflicts, compensation, conditions under which income or principal can fall, death or incapacity treatment, and a simpler benchmark for the same job.

Do not buy a product whose success depends on a term the owner cannot explain.

Yield is not return

A high distribution can include interest, dividends, realized gain, option premium, borrowed money, or return of capital. The payment can continue while net asset value falls.

total return = (ending value – beginning value + cash distributions) ÷ beginning value

Subtract fees, tax, and inflation for the household result. If a product advertises an 8% distribution, ask whether principal is expected to fall and whether the payment can change.

Illiquidity needs a separate budget

Private funds, nontraded vehicles, restricted stock, real estate, and surrender-charge products may not be available when life changes. Haircut stated values and exclude them from near-term reserves.

Reference form: liquid coverage years = low-volatility liquid assets / yearly essential portfolio gap.

Stress delayed redemptions, capital calls, valuation declines, and buyer disappearance. An illiquidity premium can still be wrong for a household already concentrated in a home and pension.

Fraud defense is portfolio construction

Use independent statements, trusted contacts where appropriate, transaction alerts, unique credentials, limited authority, call-back procedures, and second-person review for unusual transfers. Never send money because an urgent caller knows familiar details.

An adviser or relative should not control custody, reporting, and approval without checks. Incapacity planning grants enough authority to operate while preserving oversight.

Your action: subtract one unnecessary thing

Assign every position a job. Mark duplicates, unexplained products, unsupported concentrations, dormant accounts, and manual dependencies. Remove one item only after checking tax, surrender, benefit, and transfer effects.

The aim is not minimalism. It is a system whose risks are visible and whose owner can operate it at eighty-five.

Chapter 20: Fees, advisers, and the price of delegation

Advice can save more than it costs when it improves behavior, taxes, insurance choices, estate coordination, or execution. It can also become a permanent charge for a service the household cannot describe. The test is not whether advice is “worth it” in the abstract. The test is which work is being delegated, what conflicts accompany it, and what the household receives after all costs.

Convert every fee to dollars

Collect advisory fees, fund expenses, platform charges, trading spreads, wrap fees, insurance costs, commissions, surrender charges, custodial fees, planning retainers, and fees inside workplace plans.

annual visible cost = assets billed × advisory rate + fixed fees

annual fund cost = dollars in each fund × that fund's expense ratio

Add product and transaction costs separately. On a \$2 million portfolio, a 1% advisory charge is \$20,000 before fund expenses, trading, or product costs. A percentage that sounds small can be one of the household's largest recurring purchases.

Do not multiply one year's charge by thirty and call the result exact. Assets and rates change. Instead calculate a current-dollar estimate under several balance paths and show the cumulative dollars plus the opportunity cost of money no longer invested.

Define the service calendar

An advice agreement should say who performs and documents:

- allocation and rebalancing;

- withdrawal and cash management;
- tax projection and coordination with the preparer;
- Social Security and pension analysis;
- insurance review;
- estate and beneficiary coordination;
- Medicare or Marketplace planning;
- RMD and charitable execution;
- fraud and incapacity safeguards;
- meetings with the less-involved spouse;
- response during market stress.

Investment selection alone rarely justifies a broad planning fee. Conversely, a household with tax complexity, a business sale, fragile behavior, or no capable operator may receive substantial value from coordinated work.

Know the legal and economic relationship

Ask whether the person and firm act as a fiduciary for the engagement, when that duty applies, how they are registered, how they and affiliates are paid, and which recommendations create additional compensation. Read the relationship summary, advisory brochure, contract, product prospectus, and disciplinary record from authoritative sources.

Fee-only, fee-based, commission, subscription, hourly, and asset-based describe compensation differently; none guarantees competence. Obtain the exact dollar path for the services you will use.

Custody and decision authority require controls

Prefer independent custody and statements. Understand trading authority, withdrawal authority, money-movement procedures, trusted-contact use, and how to revoke access. Require call-back or dual-review procedures for unusual transfers.

An adviser should not be the only person receiving statements or the only person able to explain where assets are held. The household retains a current inventory.

Compare service models by the problem

An hourly or project planner can fit a self-directed household that needs a retirement-income design or second opinion. A subscription can fit ongoing planning without asset billing. Asset-based management can fit a household that delegates investments and ongoing coordination, though the dollar fee rises with assets. A commission arrangement can be appropriate for a specific transaction when compensation and alternatives are clear. Some households combine low-cost implementation with periodic professional review.

Do not force every problem into the model sold by the first professional interviewed.

Calculate the break-even value of delegation

Assume a \$1.8 million household is quoted 0.85% a year for portfolio management and planning, plus an estimated 0.12% in underlying fund expenses. The visible annual cost is approximately:

$$\$1,800,000 \times (0.85\% + 0.12\%) = \$17,460$$

The household should not demand that the adviser “beat the market” by \$17,460. That can encourage hidden risk. It should ask whether the combined service prevents or solves problems worth at least the cost: avoidable tax, poor withdrawal sourcing, insurance errors, excessive cash, concentrated stock, panic selling, missed benefits, or an inoperable survivor system.

Write the break-even service ledger:

Service	Evidence of completion	Household value or avoided cost
Annual tax projection before distributions	dated projection shared with preparer	
RMD/QCD execution	custodian confirmations	

Service	Evidence of completion	Household value or avoided cost
Allocation and rebalancing	before/after policy report	
Insurance and benefit review	written gaps and actions	
Spouse/successor training	live operation drill	
Crisis coaching	documented policy action	

Some value cannot be known in advance. The ledger still exposes an arrangement in which the only recurring deliverable is a quarterly performance chart.

Ask what happens when assets fall or leave

Asset-based fee schedules may have breakpoints, minimums, householding rules, and charges on cash. Ask whether the percentage falls as assets rise, whether held-away accounts are included, and whether the firm bills on beginning, ending, or average values.

Also ask what happens when the client takes a large distribution, transfers one account, enters care, or needs only planning rather than management. An arrangement that fit at age sixty may be unnecessarily expensive or operationally wrong at eighty.

Compare at least three written offers using the same service list. A lower price is not automatically better; an unpriced promise of “comprehensive wealth management” is not automatically more valuable.

Verify claims independently

Use official regulator and firm records for registration, disciplinary history, services, conflicts, and custody. Confirm professional designations with the issuing organization. Ask who receives compensation when an insurance or investment product is recommended.

No title - adviser, planner, wealth manager, retirement specialist, fiduciary - substitutes for the actual legal relationship, contract, competence, and conduct.

Performance is not the right short-term scorecard

Compare returns with an appropriate risk and cash-flow benchmark over meaningful periods, net of all fees. But an adviser who prevented a panic sale, caught a pension error, improved a tax sequence, or made the system survivable created value not captured by one year's market ranking.

Use a service scorecard:

- required work completed on time;
- plan changes documented;
- portfolio remains within policy;
- taxes and premiums projected before decisions;
- recommendations explain tradeoffs and costs;
- both spouses understand the cash system;
- no unexplained product or custody change;
- after-fee results match the chosen level of risk.

Howard and Lena need succession, not a stock picker

Their primary problem is that Howard runs everything and Lena cannot. A useful professional relationship would consolidate records, simplify holdings, teach Lena the income process, coordinate RMDs and charitable transfers, and maintain a continuity plan.

Interview candidates with Lena present. Ask each to show the first ninety days of work, annual dollar cost, custody, emergency procedure, and what happens if the lead adviser retires. The best investment presentation is irrelevant if Lena still cannot pay herself after Howard's incapacity.

Your action: write the delegation contract before signing one

List the jobs you will retain, delegate, and independently verify. Put a dollar beside every fee and a date beside every deliverable. Decide what would justify termination.

Pay for necessary competence and continuity. Do not pay indefinitely for mystery.

Chapter 21: When one spouse can no longer run the system

The greatest operational risk in many retirement plans is not a market. It is the loss of the one person who knows the passwords, tax history, adviser, and reasons behind every holding.

Incapacity can be gradual, intermittent, or sudden. The system must transfer before perfect certainty about capacity is available, while respecting legal authority and the person's dignity.

Separate knowledge, authority, and access

Knowing where an account is does not grant legal authority. Holding a power of attorney does not guarantee an institution has accepted it. Possessing a password may violate procedures and create security or legal problems.

For every institution record:

- account owner and registration;
- beneficiary and trusted-contact status;
- authorized agent and accepted documents;
- adviser or service number;
- normal cash flow;
- authentication method;
- where original documents are stored;
- last confirmation date.

Have an estate attorney review powers, trusts, health directives, and state requirements. Ask custodians how they handle an agent before a crisis.

Build a ninety-day operating file

The file should let an authorized person run three months without reconstructing the household:

- monthly income and deposit dates;
- bills and payment method;
- cash minimum and transfer instructions;
- insurance policies and premiums;
- medication and care contacts kept securely;
- tax preparer and estimated-payment schedule;
- RMD status;
- adviser and custodian contacts;
- property obligations;
- debts;
- warning against changing investments during the initial handoff unless cash or risk requires it.

Do not place passwords in an unsecured binder. Use an appropriate password manager, sealed procedure, or professional protocol that authorized people can actually access.

Use staged responsibility

Transfer tasks before transferring crisis. The less-involved spouse can first watch the monthly cash meeting, then initiate a routine transfer, then lead a quarterly review. A trusted child or agent can receive alerts without controlling money. A professional can document workflow without becoming sole gatekeeper.

Create triggers for more help: missed bills, repeated unusual trades, vulnerability to scams, failure to complete taxes or RMDs, unexplained withdrawals, or medical evidence affecting financial judgment. The response may range from added review to activation of legal authority; qualified medical and legal advice matters.

Simplify while the owner can consent

Consolidate only when tax-neutral and after checking benefits, insurance limits, creditor rules, cost basis, surrender terms, and unique plan features. Replace duplicate funds, close empty accounts, automate stable bills, and reduce manual distributions.

Do not consolidate everything at one bank merely for convenience. Operational simplicity still needs institutional and fraud resilience.

Distinguish ordinary mistakes from a transfer-of-control trigger

Everyone forgets a password or pays a bill late. A transfer protocol should not treat one ordinary error as proof of incapacity. It should look for a pattern tied to financial risk: repeated duplicate payments, unexplained withdrawals, unusual secrecy, new “friends” requesting money, failure to recognize familiar institutions, unpaid taxes, or investments that contradict the written policy.

Create three levels:

Observe. A second person reviews statements and alerts while the owner keeps control.

Assist. Routine cash, tax, and bill tasks are performed together; unusual transfers require a call-back or second approval.

Act under authority. The legally authorized person assumes defined duties after the trigger specified in the governing documents and professional advice.

The trigger must respect the law and the person's rights. A family disagreement about investing is not, by itself, incapacity.

Design against high-pressure fraud

Many scams manufacture urgency, secrecy, authority, or affection. Technology can imitate a voice, telephone number, message thread, or familiar institution. The defense is a procedure that does not depend on detecting every fake.

For any new destination or transfer above the household threshold:

1. stop the incoming call or message;
2. contact the person or institution through a previously verified channel;
3. require review by the named second person;
4. wait through the written cooling period unless physical safety requires emergency action;
5. record the request and confirmation;
6. never defeat a bank warning because the caller supplied a convincing story.

The procedure applies to relatives and professionals as well as strangers. Familiarity is not an internal control.

Protect the surviving operator from a sales rush

After death or incapacity, a spouse may receive urgent proposals to consolidate, surrender policies, sell a home, replace funds, or buy guaranteed products. Some deadlines are real; many purchases can wait.

The ninety-day file should label actions as immediate, deadline-controlled, and deferrable. Immediate actions protect cash, coverage, property, and required payments. Deadline-controlled actions include legally or contractually time-sensitive elections. Deferrable actions include most complete portfolio redesigns.

The default during the handoff is to preserve liquidity and the existing policy while facts are assembled - not to reward the first person who offers certainty.

Plan the survivor's first year

After a death, income, filing status, pension, Social Security, insurance, tax estimates, and beneficiaries can change. The survivor also faces grief and administrative overload.

Prepare a no-rush rule: maintain cash, notify essential institutions, obtain multiple death certificates, protect the home, identify deadlines, and avoid major investment or property decisions until necessary facts

are assembled. Some elections are time-sensitive; others are sales pressure disguised as urgency.

A solo retiree needs a bench, not a fictional spouse

“Tell your spouse” is not a plan for a person who lives alone, has no children, or does not want relatives controlling money. A solo retiree names a bench with separate functions: an emergency contact, financial agent, health-care agent, executor or trustee, local practical helper, and professional backup. One person may hold more than one role, but no role is filled until the person has accepted it and knows where the instructions are.

The plan also identifies who will notice trouble. Add trusted contacts where institutions offer them, give Social Security advance-designation choices appropriate consideration, and schedule a recurring check-in that cannot be silently missed. A trusted contact can be alerted; that status alone does not authorize transactions. Transaction power requires the governing legal authority.

Unmarried partners must replace missing defaults with documents

An unmarried partner may have no automatic authority over accounts, health decisions, property, retirement benefits, or inheritance. The household checks titles, beneficiary forms, leases or deeds, health directives, financial powers, access to shared bills, and the tax cost of transfers. Each partner also needs a plan that works if the relationship ends without the protections or procedures of divorce.

Do not solve the problem by sharing every password or adding joint ownership without advice. Those shortcuts can create security, creditor, gift, control, and estate consequences. The objective is lawful authority and documented access, not informal visibility.

Howard and Lena perform a live drill

For three months Lena directs cash transfers and bill review while Howard observes. She locates the tax return, statements, policy, powers, and contact list. They reduce seven accounts where safe and replace the twenty-seven-position collection with a smaller set that preserves allocation and tax intent.

Their success measure is not whether Lena learns Howard's investing style. It is whether she can state how much arrives, how much may be spent, whom to call, and what not to do in a falling market.

Your action: disappear for thirty days on paper

Assume the household's financial operator cannot speak or sign for one month. Walk every income, bill, trade, distribution, tax payment, and authentication step. Mark each failure.

Repair those failures now. A portfolio that cannot survive the temporary absence of its manager is not a finished retirement portfolio.

Chapter 22: The annual meeting and the one-page policy

A retirement plan should not require daily attention. It does require a scheduled time when assumptions, cash, allocation, taxes, insurance, and family changes are reconciled. Without that meeting, small exceptions accumulate until the written plan describes a household that no longer exists.

Hold the main meeting once a year, with a shorter tax meeting in late summer or early fall and an immediate review after a major life event.

Assemble the evidence packet

Bring current statements, year-to-date income, spending totals, tax projection, Social Security and pension records, insurance notices, mortgage or debt statements, estate documents, beneficiary confirmations, and the prior policy.

Create one household balance sheet using consistent dates. Separate investable assets, designated education or gift assets, home equity, business interests, and personal property. Do not improve the funding ratio by moving the same asset into two categories.

Recalculate the portfolio gap

Update:

annual portfolio gap = after-tax spending – after-tax reliable income

gross withdrawal need = portfolio-funded spending + portfolio-funded tax

current gross withdrawal rate = next twelve months' gross withdrawals ÷ current investable portfolio

Compare with the written guardrails and funded-liability schedule. A change in market value does not automatically require action; it requires the action already assigned to the crossed threshold.

Refill known spending by time, not fear

List each essential withdrawal due in the next five years and the asset assigned to it. Replenish the first year from income, maturities, and rebalancing sales. Extend the schedule only to the policy horizon.

Do not build a ten-year cash pile because headlines are frightening. Do not invest next year's property tax in stocks because the market is rising.

Review allocation with bands

For each asset class record target, lower band, upper band, current percentage, and required trade. Rebalance using withdrawals, RMDs, dividends, contributions, and tax-aware sales before creating extra turnover.

If the household's spending floor, longevity, income, or capacity for loss changed, revise the target deliberately. Do not relabel performance chasing as a risk-tolerance update.

Run four stresses

At minimum, rerun:

1. an early equity decline with several years of weak recovery;
2. inflation above plan in essentials;
3. loss of one spouse with survivor income and tax rules;
4. a care or housing transition.

Add any household-specific concentration, business, insurance, or family risk. Record the first action under each stress.

The one-page investment policy

The front page should contain only decisions:

- purpose of the portfolio;

- annual essential and flexible spending;
- reliable income and portfolio gap;
- cash reserve target;
- target allocation and bands;
- funded-liability schedule;
- withdrawal method and guardrails;
- account-source priorities;
- concentration limits;
- rebalancing dates and triggers;
- prohibited products or actions;
- emergency and incapacity contacts;
- next review date.

Supporting schedules hold assumptions, tax calculations, holdings, and sources. The policy page is short because it must be usable during fear.

A complete rule has five parts

Write every rule as:

trigger measurement action limit restoration

Example: if the current withdrawal rate exceeds the upper guardrail on the annual measurement date, freeze the inflation increase and cut listed flexible categories by 10%, but do not reduce essential health or housing; restore half the cut when the rate returns inside the band and the cash reserve is full.

“Be conservative in a bear market” contains none of these parts.

The four households finish differently

Nina's policy prioritizes concentration reduction and taxable bridge saving before a generic age glide path. Mark and Elise fund the pre-Social-Security and pre-Medicare bridge and let flexible travel absorb early sequence stress. Ruth coordinates giving, RMD preparation, and account location while preserving a simple cash system. Howard and Lena reduce operational complexity and make survivor continuity a binding constraint.

There is no universal age-based portfolio because the liabilities, income floors, tax contracts, and operators differ. There is a universal discipline: convert goals into dated cash flows, assign assets, define reactions before markets move, and make the system operable by someone other than its designer.

When the answer is “not yet funded”

A failed plan deserves a useful verdict, not shame and not false precision. Separate the shortfall into four causes: essential spending, timing gaps, debt or housing, and optional promises. Then calculate the smallest effective repair in each category.

Use this order:

1. correct missing benefits, account access, tax, and employer-plan facts;
2. stop counting the same asset or income twice;
3. fund irregular expenses that were hidden in averages;
4. suspend open-ended gifts and unpriced lifestyle additions;
5. price a later work date or limited earned-income period without assuming the work will exist;
6. test Social Security and pension dates as lifetime-income decisions;
7. change debt and housing only after transaction costs and lost liquidity are visible;
8. reduce essential spending only by naming the actual service or standard of living being changed;

9. check eligibility for public, employer, veteran, disability, housing, health, or care benefits with the responsible program;
10. if no repair closes the gap, preserve liquidity and obtain qualified benefits, debt, housing, tax, or legal help before taking investment risk.

The output is a dated recovery plan: dollars needed, action, owner, deadline, evidence, and the condition that would make retirement feasible. “Earn more return” is not an acceptable repair unless the plan also shows the additional loss it can survive.

Your action: sign the policy

Both spouses or the retiree and trusted agent read the page aloud. Each person explains where next year's cash comes from and what happens after a 30% stock decline. Revise any rule that depends on jargon or unstated judgment.

Sign and date it. The signature does not freeze the plan. It makes future changes visible.

Appendix A: Formula reference

These formulas organize decisions. They do not replace a tax return, contract, insurance quote, or probabilistic model.

Household cash

portfolio-funded spending = recurring after-tax spending + irregular reserve + portfolio-funded tax and premiums – reliable after-tax income

Use after-tax amounts on both sides. If tax is paid from the portfolio, iterate the gross withdrawal until spending and tax are both covered.

initial gross withdrawal rate = first-year gross portfolio distribution ÷ investable assets at retirement

The numerator includes portfolio-funded tax. The denominator excludes a home or business unless a defined transaction has made proceeds available.

essential coverage ratio = reliable after-tax income ÷ essential after-tax spending

A ratio of 1.00 means reliable income covers current essentials. It does not fund repairs, care, inflation gaps, or discretionary goals.

Liability funding

present reserve = $\sum[(\text{essential outflow in year } t - \text{reliable income in year } t) \div (1 + \text{matching yield})^t]$

Use yields and maturities that correspond to the liability and account for tax. A simpler operating version holds twelve months of net withdrawals in cash and the next two to five years of essential gaps in short high-quality bonds or a ladder.

liquid coverage years = liquid low-volatility assets ÷ annual essential portfolio gap

Do not include restricted, surrender-charged, privately valued, or occupied home assets without applying realistic access limits.

Inflation

$\text{future cost} = \text{current cost} \times (1 + \text{inflation rate})^{\text{years}}$

Use separate rates for essentials when housing, insurance, health, or care differs from general inflation.

$\text{real return} = (1 + \text{nominal return}) \div (1 + \text{inflation}) - 1$

The subtraction shortcut is close only at modest rates.

Bonds

$\text{approximate price change} \approx -\text{modified duration} \times \text{change in yield}$

This first-order estimate ignores convexity, credit spreads, defaults, and cash flows.

$\text{after-tax yield} = \text{taxable yield} \times (1 - \text{marginal tax rate})$

For a tax-exempt bond comparison:

$\text{taxable-equivalent yield} = \text{tax-exempt yield} \div (1 - \text{relevant marginal tax rate})$

Use the marginal rate that actually applies, including state treatment and credit risk. Do not compare unlike maturities or quality.

Taxable holdings

$\text{unrealized gain} = \text{current value} - \text{adjusted basis}$

Reference form: $\text{embedded-gain ratio} = (\text{current value} - \text{adjusted basis}) / \text{current value}$.

$\text{after-tax sale proceeds} = \text{proceeds} - \text{federal tax} - \text{state tax} - \text{transaction cost}$

The tax is calculated from the return, not one assumed rate.

Concentration and cost

$\text{concentration percentage} = \text{linked exposure} \div \text{relevant asset base}$

Combine holdings, compensation, pension, and employment tied to the same economic source.

$\text{annual advisory cost} = \text{assets billed} \times \text{fee rate} + \text{fixed fees} + \text{fund expenses} + \text{product and transaction costs}$

Ask for dollars, not only percentages.

Housing and care

usable released equity = sale price – debt – sale and move costs – tax – replacement housing and setup

annual care draw = care services + continuing household cost + tax – continuing income – expenses that stop – insurance benefit

For couples, retain the healthy spouse's housing and living costs.

Guardrail rule

current withdrawal rate = coming-year gross distribution ÷ current investable portfolio

A complete policy specifies the measurement date, upper and lower boundaries, size of change, spending categories affected, limit, and restoration rule.

Appendix B: Market-condition decision cards

These cards begin after the permanent allocation, cash schedule, and guardrails have been written. They prevent market labels from becoming permission to speculate.

Equity bear market

Evidence: broad equities have declined materially; household equity is below its policy band.

First actions: verify twelve months of cash, direct dividends and maturities to spending, use bonds assigned to near-term liabilities, pause optional large outlays if the withdrawal guardrail is crossed, rebalance only to the written band.

Do not: sell the entire stock allocation, buy leverage to recover faster, move all bonds to stocks, or claim Social Security solely because account values fell.

Household variable: years of essential gaps already protected. A retiree whose pension covers essentials can respond differently from one drawing 6% for food and health.

Fast bull market

Evidence: equity weight exceeds the upper band; valuation and recent return feel like proof that risk is low.

First actions: refill scheduled liabilities, sell or donate concentrated appreciated positions, rebalance tax-aware, review whether spending increases are recurring, and restore any prior guardrail cuts only under policy.

Do not: raise permanent lifestyle from one strong year, cancel insurance because assets rose, or delay diversification to avoid regret.

Household variable: embedded gains and reliable income. Use lots and charitable intent rather than a blind proportional sale.

High inflation and rising rates

Evidence: household essentials rise faster than plan; bond prices may fall as yields rise.

First actions: measure personal inflation, protect near-term nominal bills, roll short maturities at new yields, maintain appropriate TIPS exposure, review Social Security and pension COLAs, and cut flexible nominal commitments if the real gap widened.

Do not: buy an “inflation hedge” without knowing its volatility, income, tax, and time horizon; do not sell long bonds after the price decline merely to buy the same duration under a new label.

Household variable: which liabilities are inflation-linked and which income streams are fixed.

Recession and disinflation

Evidence: economic activity weakens, credit risk rises, inflation falls, and safe yields may decline.

First actions: verify bank and issuer exposure, preserve high-quality duration appropriate to liabilities, review employment or business risk in the household, and rebalance within bands.

Do not: chase distressed yield or assume every bond fund is a safe reserve.

Household variable: dependence on wages, rental occupancy, business sale, and lower-quality credit.

Sideways market

Evidence: prices make little progress over several years while dividends, interest, inflation, and rebalancing continue.

First actions: keep total-return accounting, harvest gains or losses when useful, rebalance, control cost, and let flexible spending respond to the funding ratio.

Do not: replace the portfolio with a complicated income product merely because price appreciation is disappointing.

Household variable: withdrawal rate and fee drag. A long flat market punishes a large fixed draw more than a flexible low draw.

Market condition is unclear

Most of the time, this is the honest label. Follow the permanent policy: maintain cash, rebalance at bands, fund liabilities, control tax and cost, and ignore forecasts that have no assigned action.

Appendix C: Portfolio workbook

Print or copy these sheets. Every amount carries an “as of” date.

Sheet 1 - Household spending map

Category	Monthly	Annual	Essential / flexible	Inflation assumption	Can pause for 24 months?
Housing and property					
Food and household					
Health premiums					
Out-of-pocket health					
Transportation					
Insurance					
Family support					
Travel and leisure					
Other					

Add annual reserves for home, vehicle, dental, technology, legal, and care events. Do not divide them away merely to make a monthly budget look smooth.

Sheet 2 - Reliable income schedule

Source	Owner	Start	End	Gross annual	COLA	Survivor amount	Tax treatment verified?
Social Security			lifetime				
Pension							
Annuity							
Work or business							
Other							

Sheet 3 - Account inventory

Institution	Registration	Tax type	Value	Basis	Beneficiary	Liquidity limit	Purpose

Record insurance protection and issuer exposure separately; do not assume every account under one brand is independently protected.

Sheet 4 - Target allocation and bands

Asset class	Target	Lower	Upper	Current	Account location	Job
Cash						next-year spending
Short high-quality bonds						dated liabilities
Intermediate bonds						stability / income
Inflation-linked bonds						real liability hedge
U.S. stocks						long growth
International stocks						diversified growth
Other approved diversifier						

Sheet 5 - Five-year liability ladder

Year	Essential spending	Reliable net income	Essential gap	Assigned asset	Maturity / access date
1					
2					
3					
4					
5					

Sheet 6 - Distribution ticket

Net cash required: _____ Payment date: _____

Income before transaction: _____ Selected income ceiling: _____

Candidate source	Gross needed	Federal effect	State effect	Premium/c redit effect	Allocation effect	Balance after
Cash / maturity						
Taxable lot						
Pretax account						
Roth account						

Decision and reason:

Sheet 7 - Bear-market response

Measurement date: _____ Current allocation: _____ Current withdrawal rate: _____

Cash covers through: _____ Protected bond maturities cover through: _____

Immediate paused items and dollars:

Rebalancing trade allowed by policy:

Action prohibited during the decline:

Sheet 8 - Survivor and incapacity drill

Person currently operating finances: _____

Authorized successor: _____ Documents accepted by institutions on: _____

Where income arrives:

How twelve months of spending will be paid:

Accounts or tasks the successor cannot yet operate:

Next live drill date: _____

Sheet 9 - Product decision record

Product and proposed job:

All-in first-year cost: _____ Continuing annual cost: _____

Liquidity and surrender terms:

Worst plausible loss or failure:

Issuer and custody risk:

Simpler benchmark:

Reason accepted or rejected:

Sheet 10 - One-page investment policy

Portfolio purpose:

Essential annual spending: _____ Flexible annual spending: _____

Reliable after-tax income: _____ Gross portfolio need: _____

Cash target: _____ Liability-reserve horizon: _____

Allocation and bands:

Withdrawal rule and guardrails:

Concentration limit: _____ Rebalancing trigger:

Prohibited actions/products:

Operator and backup:

Next annual meeting: _____

Appendix D: Asset and account glossary

Cash equivalent. A short-term holding intended for liquidity and principal stability, such as insured deposits, Treasury bills, or an appropriate government money-market vehicle. Features and protection differ.

Certificate of deposit. A bank deposit with a stated term and withdrawal conditions. Check insurance, early-withdrawal terms, call features, and maturity instructions.

Treasury security. Debt of the U.S. government. Bills, notes, bonds, floating-rate notes, and TIPS differ in maturity and inflation treatment; market value can change before maturity.

TIPS. Treasury Inflation-Protected Securities whose principal adjusts with the reference inflation index under governing terms. Market price still moves with real yields; tax treatment can matter in taxable accounts.

I bond. A U.S. savings bond with a composite rate and redemption rules. Purchase limits and holding restrictions make it a supplement, not an unlimited institutional portfolio sleeve.

Municipal bond. State or local debt whose interest may receive federal and sometimes state tax preference. Credit, call, maturity, and alternative-minimum-tax exposure vary.

Bond fund. A pooled portfolio with no promise that the investor receives a fixed principal on a personal maturity date. Duration, credit, fees, and portfolio turnover matter.

U.S. stock fund. Ownership in public companies through a pooled vehicle. Market-cap, equal-weight, factor, sector, active, and index approaches create different concentration and cost.

International stock fund. Public-company exposure outside the United States. Developed, emerging, currency, governance, and geopolitical risks vary; the purpose is diversified long-term growth, not a short-term forecast.

REIT. A real-estate investment trust. Public REITs can be liquid and volatile; nontraded structures can carry valuation, liquidity, and fee risks. A REIT is not a cash substitute.

Commodity or gold exposure. A diversifier obtained through physical holdings, funds, futures-linked products, or related companies. Each has different tax, storage, roll, credit, and volatility characteristics.

Fixed annuity. An insurance contract offering stated crediting or payout terms subject to the insurer and contract. Liquidity and surrender charges matter.

Indexed annuity. A contract whose crediting is linked in part to an index under caps, participation rates, spreads, and other terms. It is not direct ownership of the index.

Variable annuity. A securities product with investment subaccounts and insurance features. Contract, fund, rider, surrender, and adviser costs can stack.

Immediate income annuity. A contract exchanging premium for payments beginning soon. Payment form, survivor option, inflation feature, liquidity, and insurer strength determine the job it can perform.

Taxable brokerage account. An account in which interest, dividends, distributions, and realized gains or losses can affect the current return. Basis and lot records are essential.

Traditional retirement account. An IRA or employer plan generally funded with pretax amounts or containing untaxed growth; distributions may be ordinary income, subject to account and tax rules.

Roth account. An IRA or designated plan account with after-tax contributions and potential tax-free qualified distributions. Ordering, qualification, conversion, and beneficiary rules differ.

HSA. A health savings account linked to eligibility rules, with tax-favored contributions and qualified medical reimbursements. It is not interchangeable with a flexible spending account.

Appendix E: Household blind-spot register

A blind spot is not merely an unanswered question. It is an unanswered question that can force a sale, interrupt income, create tax, remove authority, or expose the household to pressure at the worst time. Review this register annually and after retirement, death, divorce, diagnosis, move, job exit, or a change in the person who manages money.

Cash and expense shocks

- Is there a separate amount for a vehicle, roof or major system, dental and hearing work, travel during family illness, insurance deductibles, and legal or tax surprises?
- Can twelve months of planned net withdrawals occur without selling depressed growth assets?
- Does the cash source remain accessible if the primary operator is hospitalized?

Benefits and account rules

- Have Social Security, pension, annuity, and employer-plan amounts been taken from current records rather than an old estimate?
- Will a rollover destroy Rule-of-55 access, plan loan terms, stable-value access, creditor treatment, or an employer-stock NUA comparison?
- Are inherited accounts tracked by original owner, beneficiary category, annual requirement, and final deadline?

Housing and care

- Does the housing budget include insurance availability, deductibles, repairs, transportation after driving loss, and paid property help?

- Is home equity excluded from spending until a realistic transaction makes it available?
- Can care be funded while the other spouse or the solo retiree's home continues to operate?

People and authority

- Has every financial, health, executor, trustee, and local-help role been accepted by a real person?
- Have institutions recorded appropriate trusted contacts, and has any agent tested the governing authority before a crisis?
- Can an unmarried partner or nonrelative helper act lawfully, or do informal assumptions fill the gap?
- Is digital access recoverable without storing exposed passwords?

Fraud and complexity

- Does a new payee, transfer, cryptocurrency request, emergency story, romantic request, or professional change trigger an independent callback and cooling period?
- Can the owner explain every product's return, loss, liquidity, cost, tax, issuer, and death treatment in plain language?
- Is any single adviser, bank, property, business, employer, or family member able to control too much without independent statements or review?

Death and transfer

- Do titles and beneficiary forms agree with the estate documents and current relationships?
- Is there accessible settlement cash for final bills, property protection, professional work, and continuing household expenses?
- Does the successor know which decisions are urgent, deadline-controlled, and safe to postpone?

For every “no” or “unknown,” record the financial consequence, evidence required, owner, deadline, and temporary control. A blind spot becomes manageable when it has an observable failure, a named response, and a person who has agreed to act.

Notes by chapter

The notes identify the principal authority or research foundation for claims that can change, are regulated, or depend on a product structure. They are not a substitute for the reader's current plan document, quote, return, or state law. Sources were reviewed for this edition through October 4, 2026.

Chapters 1-4: spending, risk capacity, policy, and withdrawal research

- Morningstar, The State of Retirement Income for 2026 and What's a Safe Retirement Withdrawal Rate for 2026? The 3.9% figure discussed in the book is a research output under a thirty-year horizon, fixed real spending, specified asset mixes and forward-looking assumptions, and a 90% probability of funds remaining. It is not a federal rule or a universal guarantee. Source location: [morningstar.com/retirement](https://www.morningstar.com/retirement).
- U.S. Securities and Exchange Commission, Investor.gov, Asset Allocation and Diversification and mutual-fund/ETF investor materials. These support the distinction among allocation, diversification, fees, and security selection. Source location: [investor.gov](https://www.investor.gov).
- Financial Industry Regulatory Authority, Financial Foundations and risk/return investor education. FINRA is a self-regulatory organization, not a federal agency; its materials are used for operational education, not legal rules. Source location: [finra.org/investors](https://www.finra.org/investors).

Chapter 5: cash, deposits, CDs, and money-market products

- Federal Deposit Insurance Corporation, Deposit Insurance at a Glance and Electronic Deposit Insurance Estimator. Coverage depends on depositor, institution, ownership category, and amount; it is not simply a separate limit for every account. Source location: [fdic.gov/resources/deposit-insurance](https://www.fdic.gov/resources/deposit-insurance).

- National Credit Union Administration, Share Insurance Coverage. Credit-union share insurance has its own ownership and coverage rules. Source location: [ncua.gov/support-services/share-insurance-fund](https://www.ncua.gov/support-services/share-insurance-fund).
- U.S. Securities and Exchange Commission, Investor.gov, Money Market Funds. A money-market mutual fund is a security and is not a bank deposit merely because its price is designed to be stable. Source location: [investor.gov](https://www.investor.gov).
- U.S. Treasury, TreasuryDirect, marketable securities and auction information. Source location: [treasurydirect.gov](https://www.treasurydirect.gov).

Chapter 6: bonds, TIPS, credit, and municipal tax

- U.S. Treasury, TreasuryDirect, Treasury Marketable Securities and Treasury Inflation-Protected Securities. These sources govern auction, maturity, inflation adjustment, and redemption mechanics. Source location: [treasurydirect.gov/marketable-securities](https://www.treasurydirect.gov/marketable-securities).
- U.S. Securities and Exchange Commission, Investor.gov, bond, bond-fund, municipal-security, duration, call, and credit-risk education. Source location: [investor.gov/introduction-investing](https://www.investor.gov/introduction-investing).
- Internal Revenue Service, Publication 550 and the current Form 1040 instructions for taxable and tax-exempt interest treatment. Source location: [irs.gov/forms-pubs](https://www.irs.gov/forms-pubs).

Chapters 7-8: stocks, real estate, commodities, and diversifiers

- U.S. Securities and Exchange Commission, Investor.gov, stock, mutual-fund, ETF, REIT, private-fund, leveraged/inverse-product, and commodity-linked product materials. Product structure, liquidity, leverage, tracking, and tax can differ even when two products share a marketing category. Source location: [investor.gov](https://www.investor.gov).
- U.S. Commodity Futures Trading Commission, customer education on commodity pools, futures, leverage, and precious-metals fraud. Source location: [cftc.gov/LearnAndProtect](https://www.cftc.gov/LearnAndProtect).

Chapter 9: annuities

- U.S. Securities and Exchange Commission, Investor.gov, Annuities, Updated Investor Bulletin: Indexed Annuities, and Updated Investor Bulletin: Variable Annuities. The contract, insurer, caps, participation, buffers, investment options, riders, fees, surrender schedule, and payout election determine the actual product. Source location: investor.gov/introduction-investing/investing-basics/investment-products/annuities.
- National Association of Insurance Commissioners, consumer annuity materials and links to state insurance departments. State regulation and guaranty arrangements must be checked in the owner's state. Source location: content.naic.org/consumer.

Chapters 10, 16, and 17: account location, distributions, and tax execution

- Internal Revenue Service, Publications 550, 590-A, 590-B, 969, and 915; current instructions for Forms 1040, 8606, 8949, Schedule D, and Form 8960. These cover investment income, IRA basis and distributions, HSAs, taxable Social Security, gains and losses, Roth reporting, and NIIT. Source location: irs.gov/forms-pubs.
- Internal Revenue Service, Retirement Plan and IRA Required Minimum Distributions FAQs. RMD account, owner, beneficiary, and aggregation rules must be verified for the actual arrangement. Source location: irs.gov/retirement-plans.
- Internal Revenue Service, Retirement Topics - Beneficiary and Publication 590-B. Inherited-account requirements depend on the owner's death date, required beginning date, account, and beneficiary classification; the ten-year rule does not produce one universal annual schedule. Source location: irs.gov/retirement-plans/plan-participant-employee/retirement-topics-beneficiary.
- Internal Revenue Service, Publication 575, Pension and Annuity Income. Net unrealized appreciation treatment for qualifying employer securities depends on plan, distribution, basis, and transaction facts and should be compared before a rollover. Source location: irs.gov/publications/p575.
- Internal Revenue Service, QCD guidance and Notice 2025-67 for the indexed 2026 \$111,000 limit. Source location: irs.gov/irb/2025-49_IRB.

Chapters 11-15: bear, bull, inflation, recession, and spending policy

- Internal Revenue Service, Publication 550, for capital gains, losses, basis, and wash-sale rules. Household and IRA transactions can affect whether a loss is currently allowed. Source location: irs.gov/publications/p550.
- Social Security Administration, retirement planner pages on stopping work, early or delayed retirement, survivor benefits, and official personal estimates. Source location: ssa.gov/benefits/retirement/planner.
- U.S. Bureau of Labor Statistics, Consumer Price Index methodology and data. A national index is not a household-specific spending forecast. Source location: bls.gov/cpi.
- Morningstar 2026 retirement-income research for the fixed-real base case and comparison with flexible spending methods. The book's guardrails are planning illustrations, not Morningstar guarantees.

Chapter 18: housing, reverse mortgages, and care

- U.S. Department of Housing and Urban Development, Home Equity Conversion Mortgage consumer and counseling materials. Current loan terms, eligibility, costs, occupancy, non-borrowing-spouse treatment, and counseling control the decision. Source location: hud.gov/hud-partners/single-family-reverse.
- Medicare.gov, Long-term care and covered skilled-care explanations. Medicare is not general custodial long-term-care insurance. Source location: medicare.gov/coverage/long-term-care.
- Administration for Community Living, LongTermCare.gov planning materials. Care prices, settings, family resources, and public-benefit rules require local and state-specific verification. Source location: acl.gov/ltc.

Chapters 19-21: product screening, advisers, fraud, and incapacity

- U.S. Securities and Exchange Commission, Investor.gov, IAPD, Form CRS, BrokerCheck links, fraud alerts, private-placement and complex-product materials. Source location: investor.gov/introduction-investing/getting-started/working-investment-professional.

- Financial Industry Regulatory Authority, BrokerCheck and senior-investor fraud resources. Source location: brokercheck.finra.org and finra.org/investors.
- Consumer Financial Protection Bureau, Managing Someone Else's Money guides for agents under powers of attorney, trustees, guardians, and government fiduciaries. State law and the governing document control authority. Source location: consumerfinance.gov/consumer-tools/managing-someone-elses-money.
- Consumer Financial Protection Bureau and SEC, Planning for Diminished Capacity and Illness. Trusted contacts, Social Security advance designation, financial powers, records, and accepted helpers solve different problems; a trusted contact alone has no transaction authority. Source location: consumerfinance.gov/consumer-tools/educator-tools/resources-for-older-adults/financial-security-as-you-age/planning-for-diminished-capacity-and-illness.
- Federal Trade Commission, current impersonation, payment, and family-emergency scam warnings. Source location: consumer.ftc.gov/scams.

Chapter 22 and workbook

- The annual-meeting sequence, policy template, allocation diagnostic ranges, stress assumptions, and field sheets are this book's planning conventions. They are not regulatory safe harbors or empirically guaranteed optimal portfolios.
- All case-household facts are disclosed composite assumptions. They are not testimonials, surveyed averages, or disguised client outcomes.

Sources and update notes

Federal dollar amounts in this edition are for 2026 unless stated otherwise. Readers should replace them with the current year's official values.

- Internal Revenue Service, Revenue Procedure 2025-32 and 2026 inflation-adjustment release: tax brackets, standard deduction, and capital-gain thresholds.
- Internal Revenue Service, retirement plan and IRA required-minimum-distribution FAQs; Publications 590-A, 590-B, 915, and 550: account, Social Security taxation, investment tax, and distribution rules.
- Social Security Administration retirement planner and 2026 COLA fact sheet: claiming ages, delayed credits, work-stop calculation, and earnings test.
- Centers for Medicare & Medicaid Services, 2026 Parts A and B premiums and deductibles: annual Medicare figures.
- U.S. Securities and Exchange Commission, Investor.gov annuity and fund bulletins: product structures, fees, liquidity, and risk.
- U.S. Treasury and TreasuryDirect: Treasury, TIPS, savings-bond, and auction terms.
- Morningstar, The State of Retirement Income for 2026: the cited 3.9% base-case research result. The result assumes a thirty-year horizon, fixed inflation-adjusted spending, specified asset mixes and return assumptions, and a 90% probability of funds remaining; this book does not treat it as a universal safe rate.

Research and government material informs the general rules.

Composite-household amounts are educational assumptions listed in the case ledger, not claims about typical Americans.

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