

The Key to Retirement Isn't Savings— It's Cash Flow



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Read this article if...

- You are retired or are approaching retirement
- You want to make the most of your money
- You're looking for smart asset management strategies

Most of us dedicate decades—30 to 40 years—working hard for our paychecks, covering living expenses, and saving diligently for retirement. Retirement planning often starts with contributions to 401(k) plans, savings accounts, or investment portfolios.

As investors, we're taught to ignore short-term market fluctuations, focus on the long-term horizon, and "buy the dips." These guiding principles have helped many people achieve financial security for their golden years.

However, retirement is a major life transition, one that demands a shift in mindset. Once we retire, we move from being *savers* of cash flow to *consumers* of cash flow. That's why I always remind my clients: **The key to retirement is cash flow.** Without it, navigating this new phase of life can become an uphill battle.

Retirement cash flow can take many forms, ranging from dependable sources like Social Security and pensions to more variable options like Required Minimum Distributions (RMDs), annuities, rental income, dividends, and interest. Managing these income streams wisely—with an eye toward sustainability and tax efficiency—can transform your retirement experience. Well-planned cash flow could be the key to affording your annual dream vacation!

When it comes to managing your portfolio assets, three common strategies can help structure retirement income:



- #1 Bucket Method
- #2 Total Return Method
- #3 Income Method

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Let's explore each strategy and consider what types of accounts might benefit most:

1. **Bucket Method:** With this strategy, you estimate your expenses for the next 12 months and set that amount aside in a money market fund. Over the year, you draw down your "bucket" to cover your expenses, allowing your remaining portfolio investments to keep working for you. At year's end, you reevaluate your cash flow needs and replenish the bucket. This conservative approach works well in both taxable and retirement accounts, making it a great choice for those who rely on fewer stable income sources like Social Security or pensions.
2. **Total Return Method:** Unlike the Bucket Method, the Total Return Method doesn't involve setting aside cash for expenses. You are agnostic as to whether your returns derive from appreciation or income – focusing more on Total Return. All funds stay invested, and you periodically "ladle out" what's needed—either on a set schedule or as circumstances demand. This strategy benefits long-term growth and can be ideal in consistent, rising markets. However, it may feel stressful during significant market corrections. Tax planning can also be more complex since "ladling" often involves selling positions and incurring capital gains. It's particularly suited to IRA accounts, where taxation is based on distributions rather than income source.
3. **Income Method:** This strategy relies on your portfolio to generate income through dividends and interest, minimizing the need to sell securities. In an ideal scenario, your cash flow needs are fully met, reducing capital gains taxes. Common income-producing securities include dividend-paying stocks, bonds, and REITs. Keep in mind, however, that dividends aren't guaranteed—they can fluctuate based on market and company conditions. This strategy is best suited to non-retirement assets, especially for individuals with ample portfolios who can rely on lower yields.



Ultimately, there's no single superior method—each approach depends on individual circumstances like assets, cash flow requirements, other income sources, risk tolerance, and tax sensitivity. In fact, combining these methods might serve you best, depending on your financial situation and goals. By taking the time to plan your strategy before retiring, you can pave the way for a smoother and more rewarding journey.

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