The Retirement Income Playbook

How to Turn a Portfolio Into a Paycheck

A Framework for Generating Sustainable Income
Without Running Out of Money

An Investor's Guide from
Erenda Capital Management

The Question Every Retiree Asks

You spent decades building your portfolio. Now comes the part nobody prepared you for: generating consistent income and using it.

The accumulation phase has rules most people know. Save early, invest consistently, let the magic of compounding go to work. But the distribution phase, turning a portfolio into a reliable income stream that lasts 25 or 30 years, is a fundamentally different problem. And most investors approach it with the wrong framework.

The biggest risk in retirement is not a market crash. It is running out of money. Those are related but not identical risks, and the strategies that protect against one can actually worsen the other.

Consider: an aggressive portfolio gives you the best chance of growing your wealth over 30 years, but a 30% drawdown in year two of retirement, while you're withdrawing for living expenses, can permanently impair your capital base. A conservative portfolio protects against that early drawdown, but may not grow fast enough to keep pace with inflation over a 30-year retirement. The right answer is neither fully aggressive nor fully conservative. It's a structure designed specifically for the distribution phase.

This guide provides a framework for thinking about retirement income the way institutional investors do: as an engineering problem with identifiable risks, quantifiable trade-offs, and disciplined solutions.

> **The accumulation phase rewards patience. The distribution phase rewards structure. This guide is about building that structure.**

The Retirement Math Most People Get Wrong

This is the single most important concept in retirement income planning, and most investors have never heard of it: **sequence of returns risk.**

During accumulation, the order of your returns doesn't matter. A portfolio that earns 10%, then loses 5%, then earns 15% ends up in the same place as one that earns 15%, then 10%, then loses 5%. The average return is what drives outcomes.

During distribution, the order is everything. If your worst years come early, while you're withdrawing, your portfolio may never recover. If your worst years come later, after a decade of growth, you're fine. Same average return. Dramatically different outcomes.

Both portfolios above have the same average annual return. But the portfolio that experienced losses early, while withdrawals were being taken, ends retirement with dramatically less wealth. This is sequence of returns risk, and it is the primary reason that retirement portfolio management requires a fundamentally different approach than accumulation.

> **A 30% loss requires a 43% gain to recover. If you're withdrawing 4% per year during that recovery, the math becomes even more punishing. This is why retirement portfolios need structure, not just returns.**

The 4% Rule: What It Gets Right and Wrong

In 1994, financial planner William Bengen published research showing that a retiree who withdrew 4% of their portfolio in year one, adjusted for inflation annually, had a high probability of not running out of money over 30 years. This became known as the “4% rule,” and it remains the most widely cited framework in retirement income planning.

What it gets right: it’s conservative, evidence-based, and provides a useful starting framework. For a $1 million portfolio, it suggests $40,000 per year in withdrawals, adjusted upward for inflation each year.

What it misses:

- It assumes a static withdrawal rate regardless of market conditions. In a year when your portfolio is down 25%, you withdraw the same dollar amount as when it was up 20%.
- It doesn’t account for the tax efficiency of withdrawals. Drawing from a traditional IRA vs. a Roth IRA vs. a taxable account produces very different after-tax income, and the 4% rule treats them identically.
- It treats all portfolios as identical regardless of composition. A portfolio of high-quality dividend-paying equities behaves very differently in distribution than a portfolio of growth stocks or index funds.
- It was calibrated to historical U.S. returns that may or may not repeat. The original research assumed a 50/50 stock/bond portfolio using mid-20th-century return data.

A better framework is dynamic: adjust withdrawals based on portfolio performance, market valuations, and your evolving spending needs. Withdraw less in down years. Withdraw more when your portfolio has grown. Coordinate withdrawals with tax planning. This requires active management, but the difference in sustainable income over a 30-year retirement can be substantial.

> **The 4% rule is a reasonable starting point. It is not a retirement plan. Treating it as one is one of the most common mistakes retirees make.**

Withdrawal Order: The Tax Torpedo

Most retirees draw from whichever account is most convenient. This is one of the most expensive mistakes in retirement planning.

You likely have three types of accounts, each with different tax treatment:

ACCOUNT TYPE	EXAMPLES	TAX TREATMENT
Taxable	Brokerage accounts	Capital gains rates (0%, 15%, or 20%)
Tax-Deferred	Traditional IRA, 401(k)	Ordinary income rates (up to 37%)
Tax-Free	Roth IRA, Roth 401(k)	No tax on qualified withdrawals

The order in which you draw from these accounts can save or cost you hundreds of thousands of dollars over a 20-30 year retirement. The conventional wisdom, draw from taxable first, then tax-deferred, then tax-free last, is a reasonable starting point but overly simplistic.

A more sophisticated approach considers: **Roth conversion opportunities** in early retirement years when your income is low (before Social Security and RMDs begin), **Medicare IRMAA brackets** that can increase your premiums by thousands of dollars if income spikes in a single year, **capital gains harvesting** in years when you're in the 0% capital gains bracket, and **RMD planning** to avoid being forced into higher tax brackets later.

> **Tax-efficient withdrawal sequencing is not a one-time decision. It's a year-by-year optimization that should be coordinated between your portfolio manager and your tax advisor. At Erenda, this coordination is part of our standard process.**

Social Security: Timing Is Everything

For most retirees, the Social Security claiming decision is the single highest-impact financial decision they will make in retirement. And most people make it too quickly.

Each year you delay claiming from age 62 to age 70 increases your benefit by approximately 7-8% per year, guaranteed and inflation-adjusted. No investment in the world offers that risk-return profile.

CLAIMING AGE	MONTHLY BENEFIT	ANNUAL BENEFIT	CUMULATIVE BY AGE 85
Age 62	$1,860	$22,320	$513,360
Age 67 (FRA)	$2,660	$31,920	$574,560
Age 70	**$3,300**	**$39,600**	**$594,000**

Hypothetical example based on average earner. Actual benefits depend on earnings history. Benefits shown in today's dollars.

Most investors claim early because they want the money now or because they're afraid the program will be cut. Both impulses are understandable. But for most retirees with other assets to draw on, delaying Social Security is one of the most powerful moves available. You're essentially purchasing an inflation-adjusted, government-guaranteed annuity at a rate no private insurer can match.

For married couples, the analysis becomes even more important. A common strategy is for the lower-earning spouse to claim earlier, providing household income while the higher-earning spouse delays. This maximizes the larger benefit, which also becomes the survivor benefit when one spouse passes. The difference between an uncoordinated approach and a well-sequenced one can add tens of thousands of dollars in lifetime household benefits. This is an area where professional guidance pays for itself many times over.

> **Delaying Social Security from 62 to 70 can mean more than $80,000 in additional cumulative benefits by age 85, and the gap only grows wider the longer you live. For a married couple, the stakes are even higher.**

Building a Portfolio That Pays You

The distribution phase requires a fundamentally different portfolio structure than accumulation. The goal is no longer just maximizing long-term growth. It's about both growth and generating reliable income. Preserving purchasing power over a 25-30 year time horizon while sustaining your lifestyle.

One of the most effective frameworks is the **bucket strategy**:

BUCKET 1 | 1-2 Years

Cash and Short-Term Bonds

Covers your near-term spending needs regardless of what markets do. This is your sleep-well-at-night money.

BUCKET 2 | 3-7 Years

Balanced Allocation

Income-producing investments: dividend-paying equities, investment-grade bonds, and other income-oriented holdings. Refills Bucket 1 as it's spent.

BUCKET 3 | 7+ Years

Growth Equities

Long-term growth to outpace inflation and replenish the other buckets over time. You won't touch this money for years, so it can weather volatility.

The buckets provide both structural discipline and psychological comfort. During a market downturn, you know your next two years of spending are safe in cash. You don't need to sell equities at depressed prices. You simply wait, let Bucket 3 recover, and refill the other buckets from a position of strength.

This is where Erenda's individually managed account approach provides an advantage: we can harvest specific tax lots, manage cash flows at the individual security level, and tailor the bucket structure to your specific spending needs and tax situation.

What Could Go Wrong

Most retirement plans underestimate four risks that can quietly erode even a well-funded portfolio:

Longevity Risk

You live longer than expected. This is a wonderful problem, but a real financial one. A 65-year-old couple has a 50% chance that at least one spouse will live past 90 and a 25% chance past 95. Your plan needs to fund 25-30 years, not 15-20.

Inflation Risk

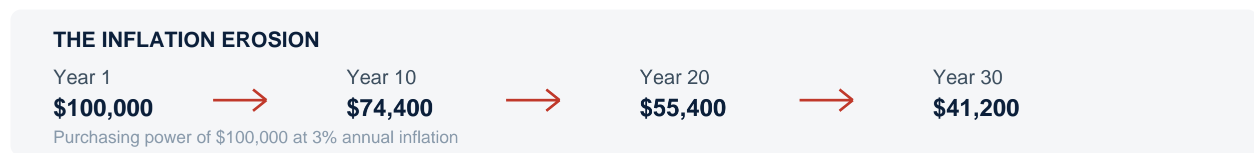
Even moderate inflation compounds relentlessly. At 3% annual inflation, $100,000 of spending in year one requires $181,000 to maintain the same lifestyle in year 20. Your portfolio needs to grow, not just generate income.

Healthcare Cost Inflation

Healthcare costs have historically outpaced general inflation by 2-3 percentage points. A couple retiring at 65 should plan for $300,000 or more in cumulative healthcare costs over their retirement, and that figure continues to rise.

Cognitive Decline Risk

Who manages your money when you can no longer manage it yourself? This ties directly to the estate planning work we covered in our companion guide. A durable financial power of attorney, a trusted contact designation on your accounts, and an advisor who knows your family are not optional safeguards. They are essential infrastructure.



A Retirement Income Checklist

Whether you're five years from retirement or five years into it, this checklist will help you identify gaps in your income plan:

- [ ] Have you modeled your retirement spending needs, including both essential and discretionary expenses?
- [ ] Have you stress-tested your plan against a significant early downturn (sequence of returns risk)?
- [ ] Have you optimized your Social Security claiming strategy, including spousal coordination if applicable?
- [ ] Do you have a tax-efficient withdrawal sequence that considers all three account types (taxable, tax-deferred, tax-free)?
- [ ] Have you evaluated Roth conversion opportunities, particularly in early retirement years before Social Security and RMDs begin?
- [ ] Is your portfolio structured for distribution (bucket strategy or equivalent), not just accumulation?
- [ ] Do you have a plan for healthcare costs, including Medicare premiums and potential IRMAA surcharges?
- [ ] Have you accounted for inflation in your spending projections, particularly healthcare inflation?
- [ ] Do you have an estate plan coordinated with your retirement income plan (beneficiary designations, trust funding, powers of attorney)?
- [ ] Do you have a cognitive decline contingency, including a trusted contact on your accounts and a durable financial power of attorney?
- [ ] Is your advisor reviewing your withdrawal strategy annually and adjusting for tax law changes, market conditions, and evolving spending needs?

If you can check every item, your retirement income plan is well-built. If you can't, you know where to start.

How Erenda Builds Retirement Income

At Erenda Capital Management, retirement income planning is not a separate service. It is integrated into every aspect of how we manage your portfolio.

Individually Managed Accounts

Your portfolio is not a fund. Every security is owned directly by you, giving us the ability to manage cash flows, harvest tax lots, and structure withdrawals at the individual position level. This flexibility is not available in fund-based or model portfolio approaches.

Tax-Coordinated Withdrawals

We work with your tax advisor to optimize which accounts you draw from each year, manage Roth conversion opportunities, and avoid unnecessary tax triggers like IRMAA surcharges. This is reviewed annually, not set-and-forget.

Dynamic Distribution Management

We adjust your withdrawal strategy based on portfolio performance, market conditions, and your evolving needs. In strong years, we may harvest gains and build cash reserves. In weak years, we draw from reserves rather than selling at depressed prices.

Integrated Planning

Your retirement income plan is coordinated with your estate plan, your tax strategy, and your long-term goals. Because we bring legal training and investment expertise to the same table, we catch the coordination gaps that most advisory firms miss.

> **Retirement is not an event. It’s a 25-30 year financial journey that requires active management, ongoing coordination, and a plan that adapts as your life does. That’s what we build.**

Ready to Build Your Retirement Paycheck?

Whether you're approaching retirement or already in it, we'd welcome a conversation about how to structure your portfolio for sustainable, tax-efficient income.

We offer a complimentary retirement income review: an analysis of your current withdrawal strategy, tax efficiency, Social Security timing, and portfolio structure. No cost, no obligation, no pressure.

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All investment involves risk, including possible loss of principal. Past performance does not guarantee future results. The hypothetical illustrations in this guide are for educational purposes only and do not represent the performance of any specific investment or advisory relationship.

Social Security benefit estimates are hypothetical and based on average earner data. Actual benefits depend on individual earnings history and claiming decisions. Consult the Social Security Administration for personalized estimates.

For additional information about Erenda Capital Management, including fees and services, please see our Form ADV Part 2A at adviserinfo.sec.gov.