

## Functional Allocation of Retirement Funds and Cash Flow Needs

### Steps

1. Set Income target – distribution limit at a 4.5% account withdrawal rate.
2. Place two years of that cash flow in cash equivalents.
  - a. (Money market and CDs, T-bills, etc.)
3. Keep one year of extra cash flow in bonds, due quarterly.
  - a. 27, 30, 33, and 36 month intervals
4. Place two years of that cash flow in cash equivalents.
  - a. (Money market and CDs, T-bills, etc.)
5. Invest balance of all remaining funds along asset allocation target independent of above.
  - a. **Example**
    - i. 80/20 Stock/ Bond
    - ii. 70/30 Stock/ Bond
    - iii. 60/40 Stock/ Bond
    - iv. 50/50 Stock/ Bond
    - v. 40/60 Stock/ Bond
6. Annually reduce both equity and bond ratio pro rata by one year's cash needs.
  - a. Example
    - i. Step one  
\$1,000,000 @ 4.5 %
    - ii. Step Two  
\$45,000 X 2 = \$90,000 in:
      - o \$30,000 money market
      - o \$20,000 T-bill due in 9 months
      - o \$20,000 T-bill due in 15 months
      - o \$20,000 T-bill due in 21 months
    - iii. Step Three
      - o \$25,000 due in 27 months
      - o \$25,000 due in 30 months
      - o \$25,000 due in 33 months
      - o \$25,000 due in 36 months
    - iv. Step Four  
o \$810,000 allocated:  
70/30  
§ 567,000 to equities  
§ \$243,000 to 3-year to 10-year: bonds, ETFs and bond funds

### Result:

A functional allocation portfolio with a cash “set aside,” and a general asset allocation of 70/30 places the entire portfolio in a very workable “57/34” equity to bond ratio.

70/30 ... = 57/ 43 J

80/20 ... = 65/ 35 J