

Planning withdrawals is less *retirement* about predicting the market and more about deciding what you will do when markets behave badly. That sounds obvious until you are sitting at your kitchen table with a withdrawal schedule you wrote during a calm bull run, then you watch your account drop 25% in a year and wonder whether your plan is already broken.

Bucket strategies are a straightforward way to reduce that anxiety. The core idea is to split your assets into “buckets” based on when you plan to use the money. Money you need soon sits in relatively stable, liquid investments. Money you can wait to sell sits in growth assets. When markets dip, you usually pull from the bucket that is designed for dips rather than forcing sales from the bucket that is designed to ride them out.

Done well, bucket strategies are not complicated. They also do not pretend you can control the market. They control timing, which is where most withdrawal plans succeed or fail.

Why withdrawals feel harder than investing

Accumulation is usually the easy part, emotionally. You contribute, you invest, and you can treat volatility like noise. Withdrawals flip the script. Every dollar you take out is tied to two questions you cannot escape:

1. Will I have enough when I need it?
2. Will my future self be forced to sell the wrong assets at the wrong time?

Sequence risk is the phrase people use for the problem: if your big withdrawals happen right after a market decline, your portfolio has less time to recover before the next withdrawal. Bucket strategies are essentially a practical response to sequence risk. Instead of depending on a single “overall” balance and hoping the market is kind when you need cash, you create a buffer by design.

I started thinking seriously about this after meeting a client who had a decent portfolio, but a withdrawal plan that assumed their broker’s “balanced fund” would keep behaving like a balanced fund. They were not doing anything reckless. They simply needed the money from wherever the money happened to be. When the market fell, they had no choice but to sell whatever was down.

It was not a disaster. But it was avoidable, and the avoidance would have required only a small amount of planning upfront.

The basic mechanics of bucket strategies

A bucket strategy is a withdrawal plan organized by time horizons.

Think of it this way: you are trying to align the volatility of your investments with the immediacy of your cash needs. If you need spending money next year, you do not want that spending money to be subject to a 30% swing. If you will not need that money for ten years, you can tolerate volatility because you have time to ride it out.

In practice, most bucket approaches have at least two time buckets:

- A near-term bucket, often designed to cover living expenses for the next year or two (sometimes more).
- A longer-term bucket, invested more aggressively, intended to fund later years.

Many variations exist, but the principle stays consistent: you decide what you will sell in each time period before that period arrives.

A simple example

Imagine you expect to spend \$60,000 per year from your portfolio. You might set aside \$120,000 (two years of spending) in the near-term bucket. That bucket is invested in options designed to preserve value and provide liquidity.

Your remaining portfolio, which might be, say, \$840,000, sits in a longer-term bucket invested for growth. If markets fall in year one, you draw from the near-term bucket rather than selling the longer-term bucket at depressed prices. Then, in years two and beyond, you replenish the near-term bucket as conditions allow.

This is the part that tends to be misunderstood. Bucket strategies are not just “hold cash.” They are “hold cash or near-cash only for the portion you need soon,” and then move money between buckets when it makes sense.

What makes buckets work: timing and replenishment

The most important operational piece is replenishment. If you set up buckets and never rebalance them across time, you will gradually run down the near-term bucket and end up back where you started, forced to sell something that is down.

Replenishment usually happens in one of two ways:

1. **Using incoming cash flow** such as dividends, interest, required minimum distributions, or other income sources.
2. **Selling from the longer-term bucket** when the market is favorable, then topping up the near-term bucket.

This second method is where judgment matters. If you have a disciplined spending need, you can decide when to sell more or less from the longer-term bucket based on valuations and market conditions. The goal is to avoid “selling low” for near-term cash needs.

There is no single correct rule. Two people can use the same bucket framework and get different results because their asset allocation, spending certainty, taxes, and comfort level differ.

How many buckets should you use?

You can create buckets in many shapes. Some people use a three-bucket structure that roughly matches a life stage of needs, while others use a two-bucket approach and keep it lean. The right answer depends on how stable your spending is, how complex you want your plan to be, and how much tax planning you expect to do.

A practical heuristic I’ve seen work well in real households is to start with fewer buckets and increase complexity only if you can maintain it.

If your spending is relatively predictable, two buckets can cover a lot of ground. If your spending is more variable, or you anticipate large known expenses like a home repair or tuition, you might need a dedicated bucket for those.

If you want a mental model, here is a useful range rather than a rigid rule: many plans use between two and four buckets, with the near-term bucket covering one to three years of spending, and additional buckets stepping forward in time.

But do not treat “three buckets” as a requirement. A good two-bucket plan you actually follow beats a perfect three-bucket plan you abandon after one stressful quarter.

Choosing assets inside each bucket

Buckets are not just time compartments. They are also asset allocation decisions.

Near-term buckets tend to use investments that aim for stability and liquidity. Longer-term buckets typically use a diversified mix that can handle volatility.

Because specifics depend on your tax situation, risk tolerance, and account types, I'll describe common patterns rather than making claims about what everyone should do.

Near-term bucket: stability and liquidity

A near-term bucket often includes a combination of cash-like assets and short-duration instruments. The attraction is obvious: you can fund withdrawals without worrying that a market drop will force you to sell at the wrong time.

In taxable accounts, there's also an efficiency question. For example, certain income-producing assets can have different tax treatment than others. Even if you are not trying to optimize every dollar, the choice of near-term investments should avoid creating unnecessary tax surprises.

Longer-term bucket: growth to reduce the "run out" risk

Longer-term buckets are where you earn the return that can outpace inflation and extend the life of your portfolio. This is where volatility reappears, by design. You accept that risk because you are not planning to sell those holdings every year. Instead, you plan to sell them to replenish near-term buckets when needed and when conditions allow.

A common mistake is to build the near-term bucket correctly and then accidentally make the longer-term bucket too conservative, which reduces the odds that inflation and longevity will be covered.

The trade-off nobody tells you upfront

Bucket strategies reduce sequence risk, but they introduce other trade-offs.

When you keep more money in near-term, lower-volatility assets, you typically sacrifice some upside. In exchange, you gain steadier withdrawal funding. That steadiness has value, but it is not free.

If markets rise sharply, your longer-term bucket will benefit, but your plan's overall growth may lag a plan that stays fully invested throughout. That lag can feel painful when you compare your results to someone who takes a "set it and forget it" approach.

The right question is not whether you will "miss out" on bull markets. It is whether you will avoid the outcomes you cannot tolerate in bear markets. Most people who like bucket strategies value the psychological and practical benefit of knowing where next year's money comes from.

I've seen households stick with a plan because the bucket structure made decisions feel manageable. They did not need to ask, "Do we sell now?" every month. They had a process.

Taxes, the part that makes or breaks real plans

A withdrawal plan that ignores taxes is like a map drawn without elevation. You might still get somewhere, but you'll be in trouble when you hit the hills.

Buckets interact with taxes in several ways:

- **Account location:** taxable accounts, traditional retirement accounts, Roth accounts, and pensions each have different tax rules.
- **Character of income:** interest, dividends, and capital gains can have different tax treatments.
- **Tax brackets and realizations:** selling from the longer-term bucket can trigger capital gains.

The bucket framework can be implemented across accounts, but you need to decide how. Some people fund the near-term bucket primarily from Roth and taxable holdings to manage the taxable income year by year. Others rely on traditional account withdrawals to meet spending needs and use capital gains control strategies later.

I generally recommend mapping withdrawals to account types before you finalize the bucket structure. Otherwise, you may build a brilliant timeline plan that still produces avoidable tax drag.

There is also a nuance: some near-term money can be held in accounts where withdrawals are tax-advantaged for your time horizon. That can make your near-term bucket more powerful than it appears on a purely investment-return basis.

A practical replenishment approach you can actually follow

You do not need a complicated algorithm. You do need a rule of thumb that you can follow calmly when markets change.

Here's the principle that tends to work: when the longer-term bucket has performed well or when it is relatively efficient to sell, you top up the near-term bucket. When it has not performed well, you pull from the near-term bucket and reduce sales pressure on the longer-term bucket.

A simple way to define "top up" is by restoring the near-term bucket to a target amount, such as two years of spending. If withdrawals and income cause it to fall below that target, you replenish up to the target when conditions are favorable or when you have required selling anyway.

You can also replenish using systematic income, such as dividends and interest, to limit how often you sell. That often reduces taxes and reduces transaction friction.

If you enjoy rules, you can tie replenishment to thresholds, but if you hate rules, you can rely on calendar-based replenishment with a "only sell what you need" attitude. The important part is preventing the near-term bucket from silently shrinking until it collapses during a downturn.

Handling inflation without panicking

Inflation is the slow bear market that rarely gets the same dramatic attention. Buckets do not eliminate inflation risk, but they can help you manage how inflation affects withdrawals.

Near-term bucket spending is often tied to current-year expenses, which means the money in that bucket does not need to adjust immediately. But after a year, your spending may rise. At that point, you top up the near-term bucket with a higher spending target.

That is where bucket strategies show their practical strength. You can update the near-term withdrawal need annually, based on your real expenses, and replenish accordingly. Your longer-term bucket remains the engine that aims to keep up with inflation over time.

One edge case is if you have a large fixed expense that grows quickly, like healthcare costs. You might need a separate "known rising expense" bucket or at least an updated near-term spending target that reflects expected

growth. People often underestimate how quickly healthcare costs can change, and they assume the near-term bucket will be “close enough.” In reality, close enough can become a math problem in year four.

What about required minimum distributions and eligibility rules?

If you hold traditional retirement accounts, required minimum distributions can force withdrawals later in life regardless of your preferred timing. Bucket strategies can still help, but you need to accept that the near-term bucket may receive planned inflows in the form of mandatory withdrawals.

The best way to incorporate RMDs is to think of them as cash flow that you can route into the bucket structure and then plan how the rest of your spending is funded from other accounts.

If you have Roth accounts, pensions, or capital gains opportunities, you also have flexibility. For example, you may choose to withdraw from certain buckets to fill lower tax brackets while leaving other accounts to grow, depending on your timeline and tax picture.

Because these rules can change and because individual circumstances vary, it is smart to verify details with current IRS guidance or a qualified professional. The bucket concept is universal, but implementation details are not.

Where bucket strategies can fail

Bucket strategies are not immune to mistakes. In my experience, the most common failure modes are less about the concept and more about execution.

First, people sometimes build the near-term bucket too small. They plan for one year of spending because it feels conservative, then they hit a market drop and realize they should have planned for two years. The near-term bucket should match not only your expected spending, but your liquidity reality, taxes, and the uncertainty in your income sources.

Second, people invest the near-term bucket too aggressively. They want to earn “a little more” and end up taking drawdown risk right where they planned for stability. If the near-term bucket can drop like the market, the whole point of having it is weakened.

Third, some people never define a replenishment policy. They treat the buckets as a one-time setup. Then, over time, they find themselves selling from the longer-term bucket at the worst moments because the near-term bucket ran out.

Finally, bucket strategies can become overly complex. If you build four buckets and several account-specific rules, you might lose the ability to follow the plan during real life stress. Complexity is sometimes a tax on your future decision-making.

A good bucket strategy should be robust enough to survive imperfect behavior.

Two common bucket designs, compared

If you are trying to decide where to start, it helps to compare a couple of patterns. Here are two designs that show up often, with the trade-offs made explicit.

Bucket design Typical setup Strength Common pitfall	--- --- --- ---	Two-bucket “basic” Near-term covers 1 to 2 years of spending, longer-term is diversified Simple, easier to maintain, reduces forced selling in downturns
Near-term bucket may be too small if taxes or expenses are unpredictable		Three-bucket “ladder” Near-term (0

to 2 years), mid-term (2 to 5 years), long-term (5+ years) | More flexibility if you expect variable expenses or want smoother replenishment | More moving parts, requires clearer rules to avoid drift |

A short checklist for building your first bucket plan

You can do this without spreadsheets that look like engineering projects. This checklist is meant to guide decisions, not to trap you in paperwork.

1. Estimate your annual spending from the portfolio, including what you would actually pay in a “normal” year.
2. Decide how many years you want covered by a near-term bucket, based on your comfort and income stability.
3. Identify which account types you will tap for each bucket, with an eye on taxes.
4. Choose near-term assets that are liquid and designed to minimize drawdown risk.
5. Write a replenishment rule you can follow during a downturn, then sanity-check it with a rough “what if the market drops” scenario.

That last item is where most people either become confident or discover gaps. You do not need a perfect simulation. You need enough realism to prevent wishful planning.

When life changes: healthcare, home repairs, and timing surprises

A bucket plan should anticipate that spending is not perfectly smooth. It is not just inflation. It is the unexpected invoice, the roof replacement, the help you decide to provide a family member, or a shift in travel.

Here’s an approach I’ve seen work well: treat one-off spending as either temporary withdrawals from the near-term [retirement tax strategies](#) bucket or as a prompt to create a new mini-bucket for a known expense.

For example, if you know you will spend \$30,000 on home repairs in year three, you can reduce the longer-term bucket’s planned role and increase the mid-term or near-term funding to match. If the repairs come earlier than expected, you draw from the bucket that has coverage for that period. If the repairs get delayed, you replenish the near-term bucket according to the updated timeline.

The key is to keep your buckets aligned with the actual calendar, not the calendar in your original plan.

A personal kind of discipline: making peace with selling

Even with the best bucket strategy, you will still sell from time to time. You might sell during a rally. You might sell because you must replenish. Eventually, you will see your longer-term holdings rise and you will still have to take money out.

That can feel like a loss emotionally, even if the plan is working.

The discipline is to remember what you sold for. You sold because you needed stability in the near-term and you were willing to let the longer-term assets do their job. In a sense, bucket strategies shift the “sell low” risk from your decision-making to your initial design.

When people talk about withdrawals, they often fixate on timing as if it were a mysterious skill. Buckets turn timing into a planned behavior.

Getting started without overhauling everything

If you already have investments and an informal withdrawal plan, you do not need to start from scratch. Bucket strategies can be layered onto what you have.

Start by defining the next period you need to fund. Then align that money with your near-term risk tolerance. After that, define how you will refill the near-term bucket and decide what signals you will use to make replenishment decisions.

You can begin with a near-term bucket sized for the next 12 to 24 months of spending. That alone can reduce stress in a way that feels immediate. Then, as you learn how your spending actually unfolds and how taxes behave in your real year, you can adjust the bucket boundaries and the asset allocation within each bucket.

In retirement, “perfect” is less valuable than “workable.” A plan you can execute through a bad year is better than a plan that only works when markets cooperate.

Final thoughts on bucket strategies as a planning tool

Bucket strategies are not about predicting returns. They are about budgeting with respect to time and volatility. They give you a script for what to sell when markets do not cooperate, and they reduce the odds that you will make the most expensive decisions under stress.

The magic is not the word “bucket.” The magic is that your spending money is separated from your market risk where it matters, and your longer-term growth is protected from unnecessary liquidation.

If you build your buckets thoughtfully, pick assets that match each bucket’s job, and define replenishment in advance, you end up with something surprisingly powerful: a withdrawal plan that feels less like a gamble and more like a process.

That process is what you need on the days when the market is red and the phone rings with another expense you did not plan for.