# The Diversified Finance Bucket & Tax Risk Checkup

A simple guide to balancing growth, protection, and future taxes for families and working professionals.

## This Guide Is for You If...

- You're earning well, but most of your savings are in **401(k)s, 403(b)s, 457s, or IRAs**.
- You're uneasy about **future tax rates** and how they might affect your retirement.
- You feel like your money is either **all in the market** or just **sitting in cash**, with no real plan.
- You want your dollars to do **more than one job**—retirement, kids' college, real estate, business opportunities, and more.

## What You'll Learn Inside

- **The 3 Core Wealth Buckets**
  How to think about your money in terms of **growth**, **protection**, and **guarantees/stability**, instead of a random mix of accounts.
- **How Tax Buckets Change the Game**
  Why it matters **which tax bucket** your wealth buckets sit in (taxable, tax-deferred, or tax-advantaged) — and how that can impact your future income and flexibility.
- **Spotting Hidden Concentration Risk**
  A quick self-check to see if you're quietly **overloaded in "pay later" tax-deferred accounts** or overexposed to market swings.
- **The Role of a Flexible Cash-Value Bucket**
  How tools like overfunded cash value life insurance (including properly structured IULs) can be used as a **flexible, tax-advantaged bucket** for retirement, opportunities, and big life goals.
- **Your Personal Wealth Bucket Snapshot**
  A simple worksheet to map where your money is now — and where you might want it to be over time.

**A Tri-LifeWealth Guide**

www.tri-lifewealth.com

# The 3 Core Wealth Buckets

## Step 1: Know Your 3 Core Wealth Buckets

**Most people see their money as a list of accounts: checking, 401(k), IRA, savings, maybe a brokerage account.**

That's useful... but it doesn't tell you if your *plan* is balanced.

A clearer way is to think in buckets — what each dollar's *job* is in your life.

**We'll use three:**

1. Growth Bucket
2. Protection Bucket
3. Guarantee / Stability Bucket

### 1. The Growth Bucket

**Job**:
Help your money grow over the long term.

**What usually lives here:**

- Stock market investments
- Equity-heavy mutual funds/ETFs
- Business equity or ownership
- Real estate focused on growth more than income

This bucket is where you accept more ups and downs in exchange for the potential of higher long-term returns.

It's essential for outpacing inflation and helping you build wealth over time.

The key question for this bucket is:

*"How much short-term volatility can I handle emotionally and realistically?"*

### 2. The Protection Bucket

**Job:**
Provide safety, liquidity, and "sleep-at-night" money.

**What usually lives here:**

- Checking and savings accounts
- Short-term CDs or money markets

- Emergency fund cash
- Very conservative, short-duration instruments

This is the money you keep that's easy to reach and relatively stable.
It's there for:

- Job changes
- Unexpected expenses
- Big planned purchases in the next 1–3 years

The protection bucket keeps you from having to sell long-term growth assets at a bad time just to cover life happening.

**The key question here is:**

*"If something unexpected happened, how many months could I comfortably cover without panicking?"*

### 3. The Guarantee / Stability Bucket

**Job:**
Provide a more predictable foundation you can plan around.

**What can live here:**

- Certain types of fixed or indexed insurance/annuity products
- Some guaranteed-income arrangements
- Other tools that offer contractual guarantees from an insurance company or institution

The specific tools differ, but the *purpose* is the same:
To give you a more stable base that isn't directly riding every market swing.

This bucket can be especially important for:

- People close to or in retirement
- Those who want a portion of income or legacy to be more predictable
- Families who value a stable foundation under their more aggressive assets

**The key question:**

*"How much of my future income or legacy do I want to be able to count on, regardless of market conditions?"*

## Quick Self-Check: How Are Your Buckets Balanced Today?

Take a simple, honest look at your current accounts.

Roughly estimate what percentage of your total savings is in each bucket:

- Growth: ___ %

- Protection: ___ %
- Guarantee / Stability: ___ %

There’s no perfect answer, and it will change over time.
The goal is awareness: are you unintentionally all in on just one or two buckets?

## The 3 Tax Buckets

### Step 2: Understand Where Your Buckets Live for Taxes

It's not just *what* you own that matters — it's also **how it's taxed**.

Two families can have the same account balances, but very different after-tax outcomes in retirement because their dollars live in different **tax buckets**.

We'll keep it simple with three:

1. **Taxable Bucket**
2. **Tax-Deferred Bucket**
3. **Tax-Advantaged / Potentially Tax-Free Bucket**

### 1. The Taxable Bucket

**Examples:**

- Bank accounts (checking, savings, money markets)
- Taxable brokerage accounts (individual or joint)
- Some CDs

Here, you generally get **taxed along the way**:

- Interest is usually taxed in the year you earn it
- Dividends and some capital gains can also show up on your tax return annually

This bucket gives you **flexibility and liquidity**, but you may feel the tax drag more each year.

### 2. The Tax-Deferred Bucket

**Examples:**

- Traditional 401(k), 403(b), 457
- Traditional IRA
- Some employer retirement plans funded with pre-tax dollars

The idea here is:

"Deduct now, pay later."

You may get a tax deduction or deferral today, but withdrawals in retirement are typically taxed as **ordinary income**, and you may face **required minimum distributions (RMDs)** later under current law.

If most of your savings are here, you might be heavily exposed to **future tax-rate risk** — especially if:

- You expect a similar or higher income level in retirement, or
- You believe tax rates may rise over time.

### 3. The Tax-Advantaged / Potentially Tax-Free Bucket

**Examples (when rules are followed):**

- Roth IRAs and Roth 401(k)s
- Certain types of properly structured cash value life insurance
- Some health-related accounts for qualified expenses (e.g., HSAs, where available)

Here, the theme is more:

"Pay tax on the seed, not the harvest."

You may pay tax on contributions up front, but **qualified distributions** can be tax-free in the future under current law and rules.

For life insurance specifically (including tools like **Indexed Universal Life, or IUL**, when set up and managed correctly):

- Cash value grows tax-deferred
- Access can potentially be structured to be income-tax-free through withdrawals to basis and policy loans
- There are important rules, charges, and policy risks to understand before using this strategy

### Putting It Together: Wealth Buckets × Tax Buckets

Your **Wealth Buckets** describe your money's *job* (growth, protection, guarantees).
Your **Tax Buckets** describe **how the results of that job are taxed**.

A more resilient plan often has:

- Some growth in the **taxable** and **tax-advantaged** worlds
- Some stability/guarantees not all locked in the **tax-deferred** world
- A thoughtful mix so you're not forced to take income from only one tax bucket in retirement

A useful question to ask yourself:

*"If I had to live on my savings tomorrow, how many different places could I pull from, and what would the tax impact look like?"*

# Market Risk & Sequence of Returns

## Step 3: Can You Handle a Bad Decade?

Most people focus on **average return**:

“If I get 7% over time, I’ll be fine… right?”

But in retirement, **when** those returns happen can matter as much as **what** the average is. This is called **sequence-of-returns risk**.

### What Is Sequence-of-Returns Risk?

Imagine two people with the same investments and the same average return over 20 years:

- Person A has **good markets early**, bad markets later.
- Person B has **bad markets early**, good markets later.

If both are **drawing income** from their accounts, the one who hits bad markets early might run out of money much faster — even though the average return was identical.

Early losses, combined with withdrawals, can dig a hole that’s hard to climb out of.

### Why It Matters for Your Buckets

If all of your retirement income is expected to come from **growth assets in the market**, you may be more vulnerable to:

- A major downturn right before you retire.
- A string of weak years early in retirement.

This doesn’t mean “no stocks” or “no growth.” It means:

- Having **enough protection and stability** so you’re not forced to sell growth assets at the worst possible times.
- Having **different buckets** to pull from when markets are down.

### Quick Reflection

Ask yourself:

- *“If the market dropped 30% the year before I want to retire, what would I do?”*
- *“Do I have a plan for where my income would come from in that scenario?”*

A diversified bucket approach — especially with a flexible cash bucket — is one way to give yourself more options.

## The Flexible Cash-Value Bucket

### Step 4: Consider a Flexible Cash-Value Bucket

So far, we've talked about:

- **Wealth buckets** – growth, protection, guarantees.
- **Tax buckets** – taxable, tax-deferred, tax-advantaged.
- **Market timing risk** – especially early in retirement.

Now we'll look at a specific *type* of bucket some families and professionals use: a **flexible, tax-advantaged cash-value bucket**.

One way to build this is through **overfunded cash value life insurance**, including properly structured **Indexed Universal Life (IUL)**.

This is not about buying the biggest death benefit possible.
It's about designing a policy for **maximum cash value and minimum necessary death benefit** within the rules.

### What Is a Flexible Cash-Value Bucket?

**Very simply, it's a pool of money that is:**

- Built up over time, often with systematic contributions.
- Designed to grow **tax-deferred**.
- Aiming to provide **potential access to cash on a tax-advantaged basis** later.
- Not directly exposed to stock market declines in the same way as an investment account (subject to product terms).

**In the case of a well-designed IUL:**

- Cash value growth is typically based on interest credited in relation to a market index (like the S&P 500®), subject to **caps, participation rates, and other limits** set by the insurance company.
- The policy is not directly invested in the index.
- Many IULs are designed so that **negative index performance does not reduce credited cash value**, though policy charges and loans can still impact values.

### How It Can Support Your Other Buckets

**A flexible cash-value bucket, when managed carefully, can:**

- Provide a **source of additional retirement income**, often structured to be received on a tax-advantaged basis under current tax law when using withdrawals to basis and policy loans.
- Offer **principal protection from market loss**, within the limitations of the contract, while still giving potential for index-linked growth.

- Serve as a **“opportunity fund”** you can potentially tap for:
  - Business opportunities
  - Real estate down payments
  - Helping kids with college or starting their own ventures
  - Other major life goals

The idea is not to replace your other buckets, but to **add another, more flexible one** that sits in a different tax and risk position than your traditional accounts.

## Important Trade-Offs and Considerations

This is where education and careful design really matter.

Cash value life insurance, including IUL, is **not** a magic product. It comes with:

- **Policy charges and costs**, including insurance charges, administrative fees, and potential surrender charges.
- The need for **ongoing funding** to keep the policy healthy, especially in the early years.
- **Complexity**: caps, participation rates, policy loans, and how you manage them over time.
- The risk that if the policy is not designed or managed properly, it could underperform expectations or even lapse.

And with any life insurance strategy, there’s also:

- The risk of creating a **Modified Endowment Contract (MEC)** if funding is too aggressive, which changes the tax treatment of distributions.
- The importance of **coordinating with your tax professional** to understand how any strategy fits your specific situation.

## When Might a Flexible Cash-Value Bucket Be Worth Exploring?

**It may be worth a deeper look if:**

- You’re a **higher earner** and feel overloaded in tax-deferred accounts.
- You want more **tax diversification** in retirement.
- You value **principal protection from market loss** for part of your plan.
- You like the idea of having **a bucket of cash** you can tap throughout life, not just after age 59½.

It’s not for everyone. But for some, it’s a powerful tool **when used as part of a bigger, well-coordinated plan**—not as a standalone solution.

# Your Wealth Bucket & Tax Risk Snapshot

## Step 5: Take Your Snapshot

Use this page as a simple self-check. It doesn't need to be perfect; estimates are fine.

### Part A: Wealth Buckets

Approximate of how your current savings are split:

- Growth Bucket: _____ %
- Protection Bucket: _____ %
- Guarantee / Stability Bucket: _____ %

How does this feel?

- Too aggressive?
- Too conservative?
- All over the place?

### Part B: Tax Buckets

Approximate how much of your retirement savings is in:

- Taxable Bucket (bank/brokerage): _____ %
- Tax-Deferred Bucket (401(k)/403(b)/traditional IRA): _____ %
- Tax-Advantaged / Potentially Tax-Free Bucket (Roth, properly structured cash value life insurance, etc.): _____ %

Did anything surprise you?

### Part C: Reflection Questions

Circle or underline what stands out:

1. Am I **overloaded in tax-deferred accounts**, betting heavily on future tax rates?
2. Do I have **enough protection and stability** to handle a rough decade in the markets?
3. Do I have **any flexible, tax-advantaged bucket** that I can tap for opportunities and retirement, or is everything locked up until later?
4. Does my current setup reflect what I **actually value**—or just what my employer and default options gave me?

# What to Do Next

## What to Do with This Checkup

If you've read this far, you've already done more than most people ever do: you've looked at what you own, how it's taxed, and how it fits together.

**You might be thinking:**

- "I'm in decent shape, but I could use more balance."
- "I've got way too much in tax-deferred accounts."
- "I don't really have a plan. I've just been saving and hoping."

Wherever you are, that's okay. This is the starting point, not the finish line.

**How Tri-Life Wealth Can Help**

**At Tri-Life Wealth, we help families and working professionals:**

- Clarify their wealth buckets and tax buckets.
- Identify gaps or concentration risks in their current setup.
- Explore tools — including, but not limited to, properly structured cash value life insurance and IUL — that may help create more balance, flexibility, and options.

We lead with education, not pressure. Our job is to help you see your picture clearly and understand your options. What you choose to do from there is always up to you.

**Your Next Step**

If you'd like a 15-minute Wealth Bucket & Tax Risk Review, we can walk through your snapshot together and talk about:

- Where your money sits now
- Where you'd like it to be
- Some possible steps to move in that direction

No hard pitch. No obligation. Just a conversation about your goals and what's possible.

**To schedule your review:**
Visit: *www.tri-lifewealth.com*
or reach out via email at t*rilifewealth@gmail.com*

*Educational material only. Not tax, legal, or individualized financial advice.*