



Withdrawal Rates

How much can you afford to take out annually?

You've spent years focusing on putting money into retirement savings, but you may not have given a lot of thought to taking money out when you retire.

Spending your retirement savings requires careful planning. Withdrawing too little money may mean you'll have to give up the lifestyle you were accustomed to before retirement. Taking out too much may deplete your savings too soon. So how do you determine the withdrawal rate that works for you?

At a glance






- Both your withdrawal rate and your portfolio composition will have a significant effect on the longevity of your retirement savings.
- More conservative portfolios (those with 65% to 100% bonds) have not historically supported large withdrawal rates.
- Your retirement age and your retirement lifestyle should be considered when determining your withdrawal rate.
- Most retirement plans require you to take distributions once you reach age 70½.

Finding the right rate

In 1997, three economists at Trinity University in San Antonio, Texas, published a study that examined the probability of outliving one's savings. They based it on different withdrawal rates and different portfolio compositions over time. The results, which became known as the Trinity Study, showed that the critical factors affecting your savings are your asset allocation and your withdrawal rate. The following table was built using methodology similar to that used in the Trinity Study.

Probability of meeting income needs

The table shows how the rate of withdrawal and various portfolio allocations can affect the chance of meeting income needs over a 25-year retirement. A high probability indicates it is more likely you will meet your income needs in retirement, while a low probability indicates you are less likely to do so. For example, if you had a portfolio with 50% stocks and 50% bonds and you annually withdrew 6%, there would be a 57% chance of meeting your needs. It is assumed that a person retires at year zero and withdraws a required income need each year beginning in year one. Annual withdrawals are inflation-adjusted by the historical 1926 to 2007 inflation rate of 3.1% each year. Annual investment expenses were assumed to be 0.95% for stock mutual funds and 0.76% for bond mutual funds. The data assume reinvestment of income and do not account for taxes or transaction costs.

					
	100% Bonds	75%B 25%S	50%B 50%S	25%B 75%S	100% Stocks
4%	85%	97%	97%	94%	92%
5%	33%	73%	83%	83%	81%
6%	4%	30%	57%	66%	68%
7%	0%	6%	31%	47%	54%
8%	0%	0%	13%	31%	41%

Source: Morningstar, Inc. See full disclosure on reverse.

This hypothetical example is for illustrative purposes only and is not intended to represent the actual performance of any particular investment product or real investor. The table was created using parametric simulation. This model estimates the range of possible outcomes based on a set of assumptions including arithmetic mean (return), standard deviation (risk), and correlation for a set of asset classes. The inputs used herein are the historical 1926 to 2007 figures. Each simulation produces 25 randomly selected return estimates consistent with the characteristics of the portfolio to estimate the return distribution over a 25-year period. Each simulation is run 5,000 times to give 5,000 possible 25-year scenarios. Please note the simulation model assumes a constant inflation-adjusted rate of withdrawal, which may not be representative of actual retirement income needs. This type of simulation also assumes that the distribution of returns is normal. Should actual returns not follow this pattern, results may vary. Stocks are represented by the S&P 500® Index, which is considered representative of the U.S. stock market. Bonds are represented by the five-year U.S. government bond. An investment cannot be made directly in an index. Please note that historically stocks are riskier investments than bonds. Past performance cannot guarantee comparable future results. Correlation indicates the degree to which two investments have historically moved in the same direction and magnitude.

Other considerations

While asset allocation, withdrawal rate and longevity risk are important factors in retirement income planning, you'll also want to consider:

- **Age at retirement.** Early retirement means your savings must last longer. Your annual Social Security benefit will be reduced if you begin collecting before the full-benefit age, which gradually increases to 67 over the next few years.
- **Lifestyle.** If you plan to maintain your current lifestyle in retirement, you may need about 70% to 80% of your current income. Every situation is different. Be realistic about your expenses.
- **Required minimum distributions (RMDs).** Most retirement plans require taking minimum distributions at 70½. Determine the required amount of distribution from your tax-deferred retirement plan and factor that amount into your overall withdrawal rate.
- **The unpredictable.** Give yourself some financial wiggle room. Savvy income planning allows for factors you can't predict – and that aren't within your control. These include market volatility, your portfolio's performance relative to the overall market, inflation or a change in personal circumstances. Build a cushion into your plan to help you weather these events.
- **Sequence of returns.** Timing may not be on your side once you start receiving distributions from a retirement account. If your account experiences substantial losses in the first few payout years, it's likely your assets will be slimmer than expected. That's why it's important to create a distribution plan that will support your retirement goals and have a better chance of withstanding difficult market conditions. Your financial advisor can help you determine the asset allocation and withdrawal rate that best suit your financial needs.

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