Limiting Required Minimum Distribution Costs

This week’s AAII Weekly Digest highlights these “must-read” AAII articles:

Retirement Withdrawal Calculator

A withdrawal rate is a function of how much money you withdraw from your retirement fund each year. But what if you choose the wrong initial rate? If you choose a rate that is too high, you face possible shortfall risk (the risk of running out of money within your lifetime). If you choose a rate that is too low, you might not be taking full advantage of your retirement savings. Instead of focusing on a specific withdrawal rate to use throughout retirement, you could calculate how much you can afford to withdraw annually in retirement based on the amount of money you want to have left over for your estate, how many years you estimate you will be in retirement and estimated inflation and rate of return. CI’s Retirement Withdrawal Calculator does just this.

Reduce Stock Exposure in Retirement, or Gradually Increase It?

Wade Pfau

Market volatility can have a tremendous impact on a retiree's portfolio. Dubbed "sequence of return" risk, retirees are cautioned that they must either spend conservatively, buy guarantees (e.g., annuities), or otherwise manage their investments to help mitigate the danger of a sharp downturn in the early years. One popular way to manage the concern of sequence risk is through so-called "bucket strategies" that break parts of the portfolio into pools of money—cash, bonds and stocks—to handle specific goals or time horizons. Yet the reality is that strict implementation of such a cash/bonds/equities bucket liquidation strategy can lead to an increasing amount of equity exposure over time. Studies show that such a "rising equity glide path" actually does improve retirement outcomes. Starting retirement with a 30% allocation to equities and then gradually increasing it to 70% leads to a 95.1% probability of not outliving your savings.

Retirement Spending on Planet Vulcan: Longevity Risk and Withdrawal Rates

The optimal forward-looking behavior in the face of personal longevity risk—life span uncertainty—is to consume in proportion to survival probabilities—adjusted upward for pension income and downward for longevity risk aversion—as opposed to blindly withdrawing constant income for life. However, the optimal amount to withdraw depends on survival probabilities, pension income, legacy goals and the willingness to risk outliving one's assets.

Limiting Required Minimum Distribution Costs

The IRS requires that funds be withdrawn from nearly all retirement accounts, including traditional IRAs, 401(k) plans, and SEPs. These withdrawals are known as required minimum distributions, or simply RMDs. However, the IRS does not specify how you should free up the cash to take the withdrawal, only that you actually take the money out. This lack of specificity provides you with some flexibility to limit transaction costs. This post discusses portfolio strategies for handling required minimum distributions.

Our Member Question for this week is:

How do you expect your investment portfolio to perform relative to the S&P 500 over the next 12 months?

Vote Now »

Vote to answer this week's Special Question:

What advantages, if any, do individual investors have over professional money managers?

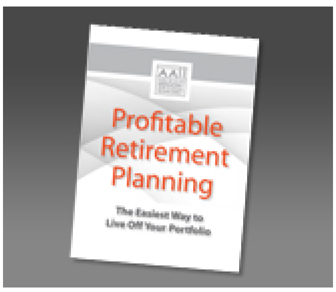
Last Week's Results:

What do you believe is the biggest obstacle to global economic growth?

Poll results are as of 9 a.m. (Central) on Monday. 2,062 respondents.

[Readers Chime in on Possible Impact of Consumer Debt on Economy, Stock Market]

These days, the U.S. economy does not operate in a vacuum. The economic health of our trading partners and the policies they implement have an impact here at home. With this in mind, last week's reader question asked what is the biggest obstacle to global economic growth. In addition, we received feedback from our readers regarding the implications for the economy and stock market of the $12.6 *trillion* of household debt in this country.



[Profitable Retirement Planning]

This e-book, which is available exclusively to AAII members, was written to help our members achieve a financially secure retirement. The book offers an overview of many of the primary considerations for retirement planning, including how much you need to save, where your retirement income will come from, what asset classes you should invest in, and how you should take advantage of your company's defined contribution plan (if available).