

A Pseudo-Life Annuity: Guaranteed Annual Income for 35 Years



A portfolio allocation mix of 60% stocks and 40% bonds combined with an annual withdrawal equal to 4% of the initial portfolio amount and increased annually by an inflation rate is recommended to retirees by practitioners and scholars.

This strategy is based on research by Larry Bierwirth and William Bengen as a means of maintaining constant dollars of income during the remainder of one's lifetime, or 30 to 35 years in retirement. The 4% initial withdrawal rate in particular has become the benchmark for retirees.

Scholarly articles on this topic usually include a comprehensive literature search directing the reader to all the variations of asset mixes, modified withdrawal rates, or the combination of "safe savings rates" and "safe withdrawal rates." The "drawback" to all of the research is that there will always be risk associated with any funds invested in stocks, and therefore no equity-based strategy can offer a guarantee of extracting the full amount of the initial retirement portfolio before death.

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