How Much Can You Withdraw From a Portfolio and Not Outlive It?

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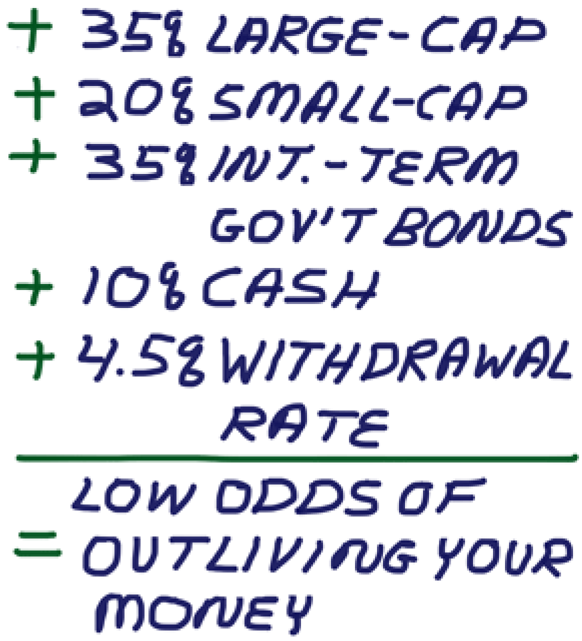
The biggest risk any investor faces is running out of money. From the standpoint of retirement savings, this is known as longevity risk. It is the risk of living longer than your savings can support you. Longevity risk is why millennials are encouraged to put most of their savings into stocks and why retired investors should keep withdrawals to a reasonable level.



What defines a reasonable level is the subject of an article I wrote for this month's *AAII Journal*. I'll share one of the conclusions here: If you are using a systematic approach like the 4% rule, don't plan on using a withdrawal rate greater than 5% as your base. This is a handy rule of thumb even for those who aren't retired. For any amount saved, a person can quickly estimate how much income their portfolio will provide in the first year of retirement. No fancy calculator needed; simply multiply what you have saved by 5%. The total will be the base amount of dollars you can withdraw. (Those of you with many years until retirement should keep in mind the boost that additional savings and market returns will have on the actual future amount of dollars you will be able to withdraw.)

The longer one's expected life-span in retirement is, the smaller the withdrawal rate should be. While a 5% inflation-adjusted withdrawal rate holds up fairly well over periods of up to 25 years (an 82% success rate of not outliving your money with a 60% large-cap stock/40% intermediate-term government bond allocation), its odds of success fall at 30-year and 35-year periods (71% and 58% success rates, respectively). Going down to 4% is better (98% and 93% success rates at 30 years and 35 years). A middle ground not covered in the article is to diversify slightly more and use a 4.5%

withdrawal rate.

The idea comes from retired financial planner William ("Bill") Bengen. Bengen created the original 4% withdrawal rule. In subsequent research, he found an initial 4.5% of retirement savings could be withdrawn and subsequently increased by the rate of inflation if small-cap stocks were included.

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- Insights on Using the 4% Withdrawal Rule From Its Creator – William Bengen explained why he now suggests a 4.5% withdrawal rate and what the biggest threat to his withdrawal strategy is.
- The Sequence in Which Returns Occur Affects Your Wealth – The timing of positive and negative returns significantly impacts wealth, particularly if withdrawals are taken or other changes are made.

Highlights from this month's *AAII Journal*

- Revisiting the Risks of Retirement Spending Rules – In this new update to a 1998 *AAII Journal* article, we discuss the risks of spending only portfolio income, spending returns or making inflation-adjusted withdrawals.
- Illustrating the Value of Retirement Accounts – Two examples show the considerations to be taken into account when deciding between a taxable account, a traditional IRA and a Roth IRA.

AAII Sentiment Survey

Optimism is above average for just the second time in nine weeks, while neutral sentiment is below average on consecutive weeks for the first time since February. More about this week's results.

This week's results:

- Bullish: 41.3%, up 3.4 points
- Neutral: 27.5%, down 0.1 points
- Bearish: 31.2%, down 3.3 points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the Sentiment Survey.

What's Trending on AAII

1. A Closer Look at the Level3 Passive Portfolio's ETFs
2. Beyond the Index Card: Implementing the Advice of the Financial Experts
3. Revisiting the Risks of Retirement Spending Rules

The Week Ahead

Sunday is Veteran's Day, with federal government offices and some banks closed on Monday in observance. The U.S. stock exchanges will operate on normal hours, but the bond markets will be closed. To those of you of who have served or are currently serving, thank you from all of us at AAII.

Third-quarter earnings season will slow from its peak, though there will still be many quarterly reports. On the calendar next week are 12 members of the S&P 500 index including Dow Jones industrial components Home Depot Inc. **(HD)** on Tuesday, Cisco Systems Inc. **(CSCO)** on Wednesday and Walmart Inc. **(WMT)** on Thursday.

The week's first economic report will be the October consumer price index (CPI), released on Wednesday. The November Philadelphia Fed business outlook survey, October retail sales, the November Empire State manufacturing survey, October import and export prices and September business inventories will all be released on Thursday. Friday will feature October industrial production and capacity utilization.

Five Federal Reserve officials will make public appearances: San Francisco president Mary Daly on Monday and Tuesday, Minneapolis president Neel Kashkari on Tuesday and Thursday, Federal Reserve vice chairman Randal Quarles on Wednesday and Thursday, Dallas president Robert Kaplan and Federal Reserve chairman Jerome Powell on Wednesday and Chicago president Charles Evans on Friday.

Local Chapter Meetings

AAII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AAII members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

Upcoming Meetings »