What is a "Safe" Withdrawal Rate From Your Retirement Accounts?

We know that too high a rate of withdrawal from your savings and retirement accounts will increase the risk that you will prematurely deplete these accounts. For years, the financial services industry has spoken of and referenced the "4% rule." This was discussed for many years to be the "safe" withdrawal rate from retirement assets so that they were not depleted prematurely. For a number of years, the formula worked pretty well. But like all things you count on, or rules by which you live, they work until they don't. This is exactly what has occurred with the famous 4% rule. It worked until it didn't.

An article, published on February 27th, 2014 by Darla Mercado in Investment News made clear that "Rather than sticking with the 4% rule, the asset manager (J.P. Morgan Asset Management) suggests periodically tweaking withdrawal rates and asset allocations in the portfolio in response to changes in wealth, age and guaranteed lifetime income streams." According to S. Katherine Roy, chief retirement strategist at J.P. Morgan Asset Management, "The 4% rule is great as a rule of thumb and for general guidance, but in practice it can be unrealistic in terms of how people behave."

Many investors ran into difficulty during the "Great Recession." Equity markets were extremely volatile and in negative territory for a prolonged period of time. The media reported that a decade's worth of returns was wiped out for most investors. I will not argue the merits of one strategy over another in this article. However, I will note the following: many investors were forced to liquidate equity holdings (stocks, mutual funds, etc.) during the downturn, locking in losses by selling to raise cash for living expenses. In many cases, this occurred because investors did not have ample reserves shielded from equity market volatility. Many continued to liquidate mutual fund shares each month to pay for needed expenses, all at a time in which share prices were sinking lower and lower. Had these same investors held ample reserves in cash and short-term instruments such as CD's and Treasury Bills, they might have been spared the unfortunate result of having to realize losses due to continued selling.

Even today, pundits on financial TV shows interview experts each week in search of the "safe withdrawal rate" from investment assets and retirement plans. The fact is that this continues to be an unknown largely because we do not know the following:

- The future performance of equity markets
- The future level of interest rates
- Future income tax rates
- The rate of inflation
- Our own longevity and state of health

As these are unanswerable, you may wish to take the following advice to heart. First, grasp the idea that a safe withdrawal rate for your retirement assets may be lower than 4%, and perhaps much lower than 4%. Next, decide to consult with your retirement planning professional. While you may excel at your occupation (long-haul trucking, heavy equipment operator, IT professional, nurse, etc.), you most probably do not have the technical knowledge to structure a retirement income plan that will provide sustainable income for your remaining lifespan. This falls within the expertise of your team quarterback—your retirement planning professional!

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