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FINANCIAL FITNESS

The 4 Percent Rule –

What's the Right Amount to Withdraw from Retirement Funds Each Year?

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Individuals on the brink of retirement might wonder what became of those "rules of thumb" affecting how to handle their nest egg once they walk away from their jobs.

The "Four Percent Drawdown Rule," disclosed in 1994, says that retirees could expect their money to last an average of 30 years – if they take out no more than 4.2 percent of their mostly stock-based portfolio in the initial year, and adjust their remaining portfolio toward a 60/40 split in stocks and bonds.

But in today's economy, some experts are taking a new look.

William Sharpe of the Stanford Graduate School of Business says that this rule can be harmful because of its level of risk tied to stocks and other assumptions including lifespan. He suggests that planners and investors need to do a better job of assessing risk tolerance and consider more stable choices. In other words, consider risk tolerance and portfolio content more, a standard percentage of drawdown less.

HERE ARE POINTS TO COVER WITH YOUR FINANCIAL PLANNER AND TAX AND ESTATE EXPERTS:

Vision: Retirement goals change as life happens. State your objectives for a post-retirement work picture if you want a new career or simply healthier finances. Set lifestyle expectations now and revisit them as necessary.

Tracking: Track your working-life expenses for 3-6 months and examine how well your current retirement nest egg and other resources could support that spending. A thorough examination of spending habits is a great first step in determining how realistic your preparation has been.

Consider worst-case scenarios: For many retirees, increasing healthcare expenses and the cost of end-of-life-care account for significant spending. As a result, many retirees may pay for expensive experimental treatments to fight disease or long-term home or nursing home care. While public aid may cover medical expenses for those who exhaust their assets, most of us desire more than minimal standards of care.

Build a phased-in retirement: Many companies want to keep older workers on the payroll. A successful phased-in or post-retirement work plan will require more than sensible planning, and may involve training and other personal investments.

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