



# helping make your retirement savings last

Making the most of your retirement years also means making the most of the money you've saved. That relaxed, comfortable retirement you have always dreamed about often depends on these two simple facts:

- The amount of money you've saved
- How quickly you spend that nest egg after you retire

The rate of annual withdrawals from personal savings and investments helps determine how long your assets will last and whether those assets may be able to generate a sustainable stream of income over the course of retirement.

A number of factors will influence your choice of annual withdrawal rate. Here are three key considerations.

## Consideration 1: Your Age and Health

As you think about what your withdrawal rate should be, begin by considering your age and health. Although you can't predict for certain how long you will live, you can make an estimate. However, it may not be wise to base your estimate

on the average life expectancy for your age and sex, particularly if you are healthy. The average life expectancy has risen steadily in the United States, reaching 78.8 years.<sup>1</sup>

## Consideration 2: Inflation

Inflation is the tendency for prices to increase over time. Keep in mind that inflation not only raises the future cost of goods and services, but also affects the value of assets set aside to meet those costs. To account for the impact of inflation, include an annual percentage increase in your retirement income.

How much inflation should you plan for? Although the rate varies from year to year, U.S. consumer price inflation has averaged under 3% over the past 30 years.<sup>2</sup> For long-term planning purposes, you may want to assume that inflation would average in the range of 3% to 4% a year. If, however, inflation flares up after you have retired, you may need to adjust your withdrawal rate to reflect the impact of higher inflation on both your expenses and investment returns. Also, once you retire you should assess your investment portfolio regularly to ensure that it continues to generate income that will at least keep pace with inflation.

## Consideration 3: Variability of Investment Returns

When considering how much your investments may earn over the course of your retirement, you might think you could base assumptions on historical stock market averages, as you may have done when projecting how many years you needed to reach your retirement savings goal. But once you start taking income from your portfolio, you no longer have the luxury of time to recover from possible market losses, as retirees and near-retirees during this latest market downturn have experienced firsthand.

For example, if a portfolio worth \$250,000 incurred successive annual declines of 12% and 7%, its value would be reduced to \$204,600. It would require a gain of nearly 23% the next year to restore

its value to \$250,000.<sup>3</sup> When a retiree's need for annual withdrawals is added to poor performance, the result can be a much earlier depletion of assets than would have occurred if the portfolio returns had increased steadily. While it's possible that your portfolio will not experience any losses and will even grow to generate more income than you expected, it's safer to assume some setbacks will occur.

Talk to your financial professional. He or she can help you determine a withdrawal strategy that can help minimize the drain on your portfolio and help maximize your life in retirement.

<sup>1</sup> Source: Center for Disease Control, "Mortality in the United States, 2013," December 2014.

<sup>2</sup> Source: Bureau of Labor Statistics, January 2016.

<sup>3</sup> Example is hypothetical and for illustrative purposes only. Your results will vary.



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