Education Series

Three Key Retirement Income Considerations

There are two factors that can determine whether you'll have a comfortable retirement:

- 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. The following 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. In the U.S., the average life expectancy at birth has reached 78.6 years.[1]

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 plan.

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.[2] So, for long-term planning purposes, you may want to assume that inflation would average about 3% 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.[3] 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.

Your financial professional can help you determine a withdrawal strategy that can minimize the drain on your portfolio.

For more information, contact the participant call center at 800-277-9739, option 3. (In New York, call 866-816-0561, option 2.

[1] Source: Centers for Disease Control and Prevention, Mortality in the United States, 2017, NCHS Data Brief

[2] Source: Bureau of Labor Statistics, 2018.

[3] Example is hypothetical and for illustrative purposes only. Your results will vary.

Ameritas Life Insurance Corp.
Ameritas Life Insurance Corp. of New York

Ameritas is a subscriber to DST Systems, Inc. and uses its subscription services to produce this marketing piece. This material was prepared by DST Systems, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates and should not be construed as investment advice. Because of the possibility of human or mechanical error by DST Systems Inc. or its sources, neither DST Systems Inc. nor its sources guarantees the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. In no event shall DST Systems Inc. be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of the content.

This information is provided by Ameritas®, which is a marketing name for subsidiaries of Ameritas Mutual Holding Company. Subsidiaries include Ameritas Life Insurance Corp. in Lincoln, Nebraska and Ameritas Life Insurance Corp. of New York (licensed in New York) in New York, New York. Each company is solely responsible for its own financial condition and contractual obligations. For more information about Ameritas®, visit ameritas.com.

DST Systems Inc. is not an affiliate of Ameritas or any of its affiliates.

Ameritas® and the bison design are registered service marks of Ameritas Life Insurance Corp. Fulfilling life® is a registered service mark of affiliate Ameritas Holding Company.

© 2022 Ameritas Mutual Holding Company