

Financial Focus

Follow a Withdrawal Strategy That Won't Leave You Empty

When you're working, you probably focus on how much you're putting into your investment portfolio. But when you retire, how much you take out will be a matter of considerable interest. And that's why you have to prepare the proper withdrawal strategies.

Specifically, once you retire, you'll need to decide what percentage of your investment portfolio you can withdraw each year without running out of money. How much *can* you take out annually?

There's no right answer for everyone. However, when you're considering a suitable withdrawal rate, you'll need to consider a few different factors...one of which is your age at retirement. Given today's longer life expectancies, you could easily be around (and incurring a wide variety of expenses) when you are 90, or older. Consequently, the younger you are when you retire, the lower your annual withdrawal rate should be.

But, when determining your ideal withdrawal rate, it isn't just the sheer number of years that you need to consider. It's also what's happening to your purchasing power during those years. Even with a relatively mild annual inflation rate of three percent, it would take just 25 years for the cost of living to essentially double. So, if you need, say, \$75,000 per year to cover your expenses when you retire, you will need \$150,000 per year in 25 years. If we go through a period in which inflation rises significantly, you might have to scale back your annual withdrawals, or adjust your investment portfolio to provide more opportunities for growth.

And, speaking of your investment mix, it's also a key factor in determining your annual withdrawal rate. If you own mostly fixed-rate investments, such as bonds and certificates of deposit (CDs), you will probably have to take smaller withdrawals each year than you would if your portfolio contained a greater percentage of stocks. That's because stocks, over time, have more growth potential than other types of investments. And, you will unquestionably need this growth to combat the two threats to your retirement income described above: longevity and inflation. (Of course, stocks also carry the risk of losing some, or all, of your principal...but if you invest in an array of quality stocks and hold them for the long term, it doesn't guarantee a profit or protect against loss. But, you may be able to help reduce the effects of price volatility.)

Another factor behind your annual withdrawal rate is the amount of income you can expect from other sources. If you open a small business or do some consulting, you may be able to withdraw less from your investment portfolio than if you had no earned income during your retirement years. You also may be able to make lower annual withdrawals if

you've built up a sizable pension or 401(k), supplemented by your monthly Social Security checks.

Your financial advisor can help you develop a withdrawal strategy that is suitable for your individual needs, and that can counter the effects of inflation, longevity, and market volatility. By making the right moves at the right time, you can go a long way working toward the retirement lifestyle you've envisioned.