

Lloyd Wealth Management, LLC

Living Off Your Retirement Portfolio

How much money should you withdraw from your retirement portfolio during retirement? Whether retired or still working, you must ultimately address this question. Using any rule of thumb is dangerous since individual circumstances differ. Here are some of the more important considerations.

- The time to act is now. According to a recent Wall Street Journal story, only 52 percent of workers or their spouses have calculated how much money they are likely to need in retirement. The survey also found only 50 percent of Baby Boomer households are accumulating sufficient assets to maintain their current standard of living.
- Determine your current and projected expenses. Break down your expenses in terms of essential versus discretionary, structural versus peripheral, and fixed versus inflation driven. This exercise will help determine your needs and hopefully provide an incentive to save more, if necessary.
- Estimate how long you'd like the monies to last. Are you planning for 30 or 40 years of retirement? Or do you anticipate a late retirement? Of course longevity – the length of your lifetime – is the great imponderable.
- Consider what you want to leave your heirs. This will have a big impact on the amount you can withdraw and your lifestyle.
- Understand the difference between the "safe" and the maximum withdrawal rate in any given year. "A safe withdrawal rate never requires a reduction in withdrawals from any previous year, allows for systematic increase in the withdrawals to offset inflation, and maintains the portfolio's ability to satisfy the first two conditions for at least 40 years," explains Certified Financial Planner Jonathan T. Guyton. He notes that if a portfolio declines during the early years of retirement, the actual withdrawal percentage will be higher.
- Diversify your portfolio. Developing an asset allocation using multiple asset classes may provide significant advantages over time.
- Understand that withdrawal rate studies are based on assumptions. Early studies by William P. Bengen, CFP® assume a 30-year period for the "safe" withdrawal rate, increases for inflation, and a recommended 50 to 75 percent range of equities in the asset allocation. The equity allocation was phased down 1 percent each year during retirement. He concluded that the safe withdrawal rate is 4.1 percent when all the equities are U.S. large-cap stocks.

Guyton's recent study analyzed two portfolios, one with 65 percent in stocks, the other 80 percent. He found they could support a 5.8 percent and a 6.2 percent withdrawal rate if the following rules applied:

- There is no increase in withdrawals following a year in which the portfolio's investment return is negative.
- The maximum inflationary increase in any given year is 6 percent.

- And there is no makeup for a missed increase in any subsequent year.

It is important to remember your risk tolerance, financial constraints and your goals. Also, rapid inflation and a severe market decline can change everything.

So how much should you be withdrawing from your retirement portfolio?

Let us know if you need assistance answering this question.

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LD20152-11/05

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