Does a 4% withdrawal rate still make sense?

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Everyone has different retirement goals. However, we all want our money to last as long as we need it. That's why it's important to work with your financial advisor to develop a retirement income strategy designed to meet your financial needs.

A key step in this process is determining an appropriate withdrawal rate. This rate must be enough to cover your expenses during retirement today, while ensuring you have money for your future expenses.

Market volatility and lower interest rates can raise questions in the minds of many investors about withdrawal rate strategies. **But no single rate or strategy will work for everyone.** That said, this report should help you better understand our withdrawal rate guidance, so you and your financial advisor can develop a sustainable withdrawal strategy for your retirement.

Your age, time horizon and goals are important.

While many point to a 4% initial withdrawal rate as a good place to start, we assume this rate for a 65-year-old with a potential 25-year time horizon. Since your age and time horizon may be different, the withdrawal rate that makes sense for you may be different, as shown in the "Initial withdrawal guidance" table on Page 2. Also, this guidance assumes you'll be withdrawing principal over time.

In general, we recommend withdrawal rates closer to the "More conservative" column if:

- You have less flexibility with your expenses.
- You rely on your portfolio for most of your income needs.
- You expect to have a long retirement (due to a younger retirement age and/or a family history of longevity).
- Leaving a financial legacy is a primary goal.

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Initial withdrawal guidance

		More conservative	Less conservative
Starting age for withdrawals	Early 60s	3.0%	4.0%
	Late 60s	3.5%	4.5%
	Early 70s	4.0%	5.5%
	Late 70s	5.0%	7.0%
	80s+	6.0%	8.0%

Withdrawal rate guidance is based on estimates of the probability of different portfolio allocations lasting to age 90. Assumes withdrawals increase by 3% annually for inflation. We estimate returns for different cash, fixed income and stock securities. Expected returns based on long-term capital market expectations for cash of 1.84%, fixed income of 1.88% to 4.47%, U.S. stocks of 5.44% to 7.31%, and international stocks of 7.04% to 7.70%. Withdrawal rates can include the withdrawal of principal. If preservation of principal is a high priority, you may need a lower withdrawal rate. In general, the higher your withdrawal rate, the greater the risk your money may not last throughout your time horizon.

Withdrawal rates are a starting point.

Similar to your overall retirement income strategy, your withdrawal strategy is not meant to be fixed or rigid. Retirement could last 25 years or more, and changes during that period may require you to adjust your strategy.

For example, one of the main reasons we recommend starting with a modest withdrawal rate is because of the potential for investment volatility and periods of underperformance. That said, if your portfolio experiences sharper declines than expected (i.e., 10% or more), or several years of weak performance, adjustments to your withdrawal strategy will likely need to be made.

Ultimately, you may need to limit any increases in your withdrawals or even reduce your withdrawals and spending to better position your portfolio to provide for your long-term needs. For that reason, your strategy should be reviewed at least annually with your financial advisor and adjusted as appropriate. This doesn't mean you should avoid growth investments to try to avoid the risk of volatility. Growth is key to helping ensure your portfolio can provide for your future needs.

Personalize withdrawals based on expenses.

Our withdrawal rate guidance assumes you'll increase your withdrawals by 3% each year to help account for potential increases in your income needs due to inflation. However, your expenses are likely to vary over time. While some may rise (like health care), spending on other items, such as travel, may moderate over time. Don't automatically take a raise each year, especially if you don't need it or if your portfolio's performance is weaker than expected. This is why it's important to outline your expenses — necessary and discretionary — with the help of your financial advisor to personalize a withdrawal strategy.

The more your withdrawals are closer to the Less conservative column above, the more flexible you may need to be with your withdrawals over time. This may include forgoing raises, or potentially reducing your withdrawals if your portfolio declines in value, particularly after years when the markets decline.

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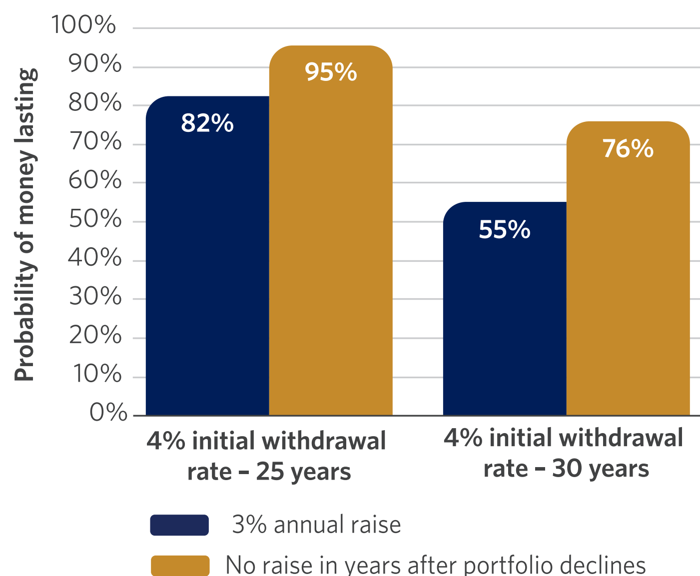
This flexibility can have a dramatic effect on your portfolio's ability to provide for your needs. The following chart compares two different spending patterns: One increases withdrawals by 3% every year, while the other has 3% increases during up years but does not increase withdrawals in years after the portfolio declines in value.

Flexibility in withdrawals can have a big effect on your success



Source: Edward Jones estimates. Results using a Monte Carlo simulation of a 50% bonds/50% stocks portfolio, rebalanced annually. The portfolio includes cash (1%), U.S. investment-grade bonds (39%), U.S. high-yield bonds (10%), U.S. large-cap stocks (33%), and international large-cap stocks (17%). Expected returns based on long-term capital market expectations for cash of 1.84%, U.S. bonds of 2.34% to 4.47%, U.S. large-cap stocks of 5.44%, and international large-cap stocks of 7.04%. This hypothetical example is for illustrative purposes only and does not reflect the performance of a specific investment.

Ultimately, being flexible with your withdrawals can help your portfolio better provide for your needs over time.

Position your portfolio for current and future income.

Your retirement income strategy should focus on your overall investment strategy, not just on your withdrawals. You're balancing the goal of providing for your current income needs with the goal of having growth for your needs many years down the road. Each investment in your portfolio serves a purpose, as shown in the income illustration below.

During times of market underperformance, your cash and short-term fixed income will provide for your current income needs. During times of stronger performance, you can use growth from your stocks and growth investments to address your needs and help restock your cash and short-term fixed-income allocation through portfolio rebalancing, which will aid in keeping your income strategy on track for the years ahead.

Cash and short-term fixed-income investments

Near-term income

Intermediate- and longer-term bonds and fixed-income investments

Medium-term income

Stocks and growth investments

Near-term income

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Understand your portfolio reliance rate and the potential role of income insurance.

Your reliance rate is how much you rely on your portfolio for your income. For example, let's assume your income needs are $50,000 per year. If your portfolio needs to provide $20,000 of this amount, your reliance rate is 40% ($20,000 ÷ $50,000).

The more you rely on your investments for income, the more sensitive your retirement strategy could be to market fluctuations, and the more conservative your withdrawal rate should be. Annuities that offer guaranteed lifetime income may be one option to help reduce your reliance rate and provide income insurance for your retirement strategy.

Developing your retirement strategy

When you were saving for retirement, you had to make adjustments over time, such as adjusting your savings rate. Having a strategy in place helped you know when these adjustments were needed. Once you retire, the need for a strategy is equally important. It can help you achieve your retirement goals, prepare you for the unexpected and help you know when adjustments are needed. If you do not have a strategy in place, or if it's been some time since your last checkup, schedule a meeting with your financial advisor.

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