# Retirement planning should consider how much you need to withdraw each year

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**By PAMELA YIP / The Dallas Morning News**

For most of us, the immediate goal is to save enough for retirement so we can have a comfortable lifestyle and not have to eat cat food.

But once you've achieved that goal, the next task is to ensure that you don't withdraw so much from your retirement nest egg that you end up outliving your money.

"The holy grail in retirement income planning is the guarantee of inflation-adjusted income for life," said Rick Salmeron, certified financial planner at the Salmeron Financial Network in Dallas.

So at what rate should you withdraw retirement funds so you don't run out of money before you die?

The rule of thumb calls for a 4 percent to 5 percent annual withdrawal rate.

But this is far from an exact science. For one thing, people's lives aren't that black-and-white.

"The needs of people in the real world are not always going to be 4 percent," Salmeron said. "The real world will fluctuate like the rate of return of the stock market fluctuates."

But the number is a good guideline.

"This has become gospel in retirement planning income circles," Salmeron said. "It was created, thanks to a groundbreaking study in the mid-1990s that declared a hypothetical portfolio invested mostly in equities would last 30 years, given a 4 percent annual withdrawal rate, increased with inflation.

"The beauty of this rule is its simplicity – easy to understand, easy to implement."

However, "the 4 percent rule can also be very flawed," Salmeron said.

"When you see the 4 percent rate in dollar amounts, most people with insufficient assets will yell, 'You mean that's all I can take out?'" he said. "The real world is a fly in the 4 percent-rule ointment."

Situation planning

Finding the formula that works for an individual is the goal.

Michael Busch, president of Vogel Financial Advisors LLC in Dallas, agrees that a "safe" withdrawal rate for retirement is generally 4 percent to 5 percent of your portfolio value.

"This 'safe' rate allows for annual inflation adjustments in subsequent withdrawal years," he said.

However, "various factors affect whether you can increase your withdrawal rate or should decrease your withdrawal rate relative to the rule of thumb," Busch said.

Situations that might allow you to withdraw more money from your retirement portfolio include:

**You don't plan to leave money to heirs.**

If you do, you may need to withdraw less each year.

**You have a higher concentration of your investment portfolio in stocks.**

"Generally equities earn more than bonds, but over an entire retirement lifespan, the higher percentage of equities are going to result in a higher rate of return for the portfolio overall," Busch said. "That higher return over time will allow you to pull more out over your time frame of the retirement portfolio."

But stocks are more volatile than bonds, so you must decide whether you want less volatility in your investments or the ability to withdraw more money at retirement.

**You derive a high percentage of your income from Social Security benefits and pensions.**

With this cushion, you can afford to take a higher withdrawal rate; without it, you may need to be more conservative.

**You have the ability to reduce your withdrawals during down investment markets.**

"The most damage is done when you're pulling large amounts of money out when markets are down," Busch said. "You'd be pulling it out while it's at a lower value."

By not taking out as much during a falling stock market, you give your money the ability to ride the rebound of the market.

Smaller chunks

It also can be risky to withdraw the same amount from your portfolio every year.

The danger of withdrawing a fixed amount each year is that if your portfolio falls in value, you would actually be taking out a larger chunk in bad years and could deplete your funds, said Alan Goldfarb, director of wealth strategies at Weaver Wealth Management in Dallas.

He gave this example:

If you have $1 million and you take out 4 percent initially, that would be $40,000.

But if the value of your portfolio falls to $600,000 and you still need $40,000 to sustain your retirement, you would be withdrawing 6.6 percent, Goldfarb said.

"Take a look at your projected spending in retirement," he said. "What do you really need to sustain yourself where you're not just eating peanut-butter sandwiches every day, and that's the minimum you need to take out."

FACTORS TO CONSIDER

Conventional wisdom says retirees can annually withdraw 4 percent to 5 percent from their investment portfolios without depleting their retirement funds. But there are several factors that will impact how much you can withdraw:

•Do you plan on leaving money to your heirs? If so, you may need to withdraw less each year.

•How much of your income needs in retirement will be met by other sources, such as Social Security or a pension? Without this cushion, you may need to be more conservative with your withdrawals.

•How heavily is your portfolio invested in stocks? Because stocks have a higher long-term rate of return than do bonds, the more stocks you have the more you're able to withdraw. But keep in mind that stocks also are more volatile.