# “Avoid Outliving Your Income”

By Tommy Williams, CFP®

A meeting of the minds. The Federal Reserve and the U.S. bond market appear to be in agreement about the direction of interest rates. For more years than anyone cares to count, investment professionals have been predicting the end of the bull market in bonds. Bond guru Bill Gross called the end of the bond bull in 2011 – and called it again in 2013. He wasn’t alone. Strategists who participated in Barron’s Outlooks anticipated rising interest rates in 2014 and 2015, too.

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The Federal Reserve began encouraging interest rates higher in December 2015 when it increased the Fed funds rate for the first time in a decade. However, the yield on 10-year Treasuries remained stubbornly low. In fact, it fell below 2 percent following the rate hike and stayed there until November 2016.

Since 2015, the Fed has raised rates six times. The latest increase, along with signs of higher inflation, helped push bond rates higher. Higher interest rates could shift investors’ preferences in some significant ways, according to sources cited by Barron’s:

*“Two years ago, dividend stocks provided investors a one-percentage point advantage over risk-free rates…Now those places have been swapped…this ability to get a “safe yield” for the first time in a decade, with no risk from falling stock or bond prices, represents a ‘seminal shift and a huge source of competition for the dividend allure of the stock market.’”*

This may be a fundamental shift that you would want to consider in your investment strategy.

While we are on the subject, I would be remiss not to touch on the question “How much can I safely withdraw from my savings for retirement income?” In other words, how do you avoid outliving your savings? Should you take 3%, 4%, more? It depends on how long you expect to live, how much your savings will earn and what inflation will be. You may also want to consider how much you plan to leave the next generation in terms of an inheritance. The size of what you leave behind may have a direct correlation to the sadness experienced by your offspring at your passing. Of course, many Americans will not have the luxury of worrying about such things due to the limited size of their next egg.

The “textbook” seemed to say for years that 5% was a safe number. Then we had this extended period of very low risk free rates of return (like near zero?) and the whisper was that 4% made more sense. Three percent should be very safe.

USA Today reports that several academic studies have shown that if you start with a 4% initial withdrawal and adjust it every year for inflation, you have a good chance of never running out of money. That rule of thumb assumes a relatively conservative portfolio, typically 50-60 in stocks, the rest in cash or bonds.

It's actually much more complicated than that. For example, how long do you expect to live and in what health? If you're more aggressive with investments, who will keep you strapped in during times of market volatility? The whole notion of 3, 4 or 5% assumes you intend to have an account balance at your death. If that's not necessary you might consider an annuity that is guaranteed to last exactly as long as you do. My best answer, in the limited space allocated to me is that these are the strangest of times. I suggest you get a trusted advisor, preferably a Certified Financial Planner™ Professional to guide you through this minefield. The subject of safely investing for retirement is definitely shifting with the return of inflation and rising interest rates.



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