

Looking to the Future Concerning Money Matters

Deciding On A Withdrawal Rate

How much can I safely take from my investment portfolio each year? is one of the most important and complex questions on which a financial advisor can counsel his/her clients.

Retirees share a very common goal: to maintain their standard of living without worrying about their future financial security. Maintaining a standard of living over a long period of time requires an increasing annual income. Mindful of that, it is important to determine a proper initial withdrawal rate for your portfolio. I define a proper initial withdrawal rate as one which:

1. Never requires a reduction, in dollar terms (as opposed to percentage terms), from year to year
2. Allows for increases to fight the effects of inflation
3. Maintains an income for the retiree for the remainder of his/her life

In a nutshell, retirees must determine an amount to draw from their portfolio, which can be increased each year and will never run out.

There are many factors that should be considered when calculating your withdrawal rate, including expected rate of return, expected inflation rate, expected lifespan and how much you want to leave to your heirs.

One study looked at the effect of different withdrawal rates on a 50% stock / 50% bond portfolio from 1926 to 1976. The study used Deciding on a Withdrawal Rate actual historical stock market returns and inflation rates in each year as opposed to an average for the period across all years. That demonstrated the long-term effect of certain financial catastrophes such as the Depression or the 1973-1974 recession on the portfolio.

The results of the study showed that a 3% initial withdrawal rate would result in a portfolio that can be maintained for 50 or more years. A 4% withdrawal rate would lead to a portfolio that can be maintained for 35 years or

more. And a 5% withdrawal rate would result in a portfolio that can be maintained 20 years or more. (Source: *Journal of Financial Planning*, March 2004)

Another study added other asset classes to the initial portfolio including international equities and real estate, and established fixed rules for rebalancing the portfolio. That study concluded that a 4.4% withdrawal rate in a 65% stock / 35% bond portfolio would last for 40 years. In addition, a 5% withdrawal rate in an 85% stock / 15% bond portfolio would last 40 years (Source: *Journal of Financial Planning*, October 2004)

What conclusions can be drawn from the studies?

- Your initial withdrawal rate should be modest to ensure you do not outlive your assets. Many studies on withdrawal rates have been conducted over the years. Most of the studies advocate a modest withdrawal rate between 3% and 5% of your assets. However, there is not a standard rule for everyone. Your asset allocation, income need, and asset base will all affect your withdrawal rate.

- Stocks need to remain a significant component of your portfolio after retirement. Both of the studies discussed above were based on portfolios containing no less than a 50% allocation to stocks. Stocks help your portfolio to fight the effects of inflation.

- It is important to have a long-term plan before you retire. Deciding how much to withdraw from your retirement assets is an important decision that will impact your standard of living for the rest of your life. Having a plan in place can provide you with the tools to experience a financially worry-free retirement.

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*Jennifer W.
Thomason
Financial Advisor,
UBS Financial
Services, Inc.*

Jennifer Thomason is a Financial Advisor with UBS Financial Services, Inc. As a member of a law enforcement family, she has dedicated her practice to financial planning for law enforcement officers. Her focus is retirement planning for officers leaving the Deferred Retirement Option Program (DROP) or taking lump-sum payouts from the State of Florida Investment Plan. Jennifer can be reached at 1-800-327-8630 or by email at jennifer.thomason@ubs.com.

Tips for Protecting Your Money While Traveling

Here are a few tips on how to protect your money and important papers while traveling:

- Don't take along extra credit cards (or other items in your wallet) that you won't need.
- Put your driver's license, passport, primary credit card, and prepaid phone card in one carrier, along with some emergency cash.
- Divide your cash, other credit cards and traveler's checks into different carriers. For example, some may go in your wallet, others in a zipped pocket of a tote.
- Put emergency cash in a zippered pocket of a money belt.
- Leave your passport, along with any credit cards, etc. in the hotel safe when you don't need them.
- Take a copy of the list of bank and credit card 800 numbers with you on the trip, and keep it in a different location.

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Toby White
Mortgage by the Sea
(954) 491-5900 office
(954) 491-5939 fax
(954) 881-2365 cell
toby@mortgagebythesea.com