How Much Money Will I Be Able to Withdraw Without Depleting My Savings?

In 1994, a curious Bill Bengen decided to find out how safe his savings were. He wanted to know how much he could safely withdraw from his savings account each year without going broke.

Most reading this article are aware of the “4% Rule” and it came from Bill Bengen’s work that day.

For most individuals in the U.S., savings may come from a variety of categories. Some may have finished paying the mortgage on their house, which means the house has become a repository of savings. Most people established a “rainy-day-fund” representing emergency money. Many have a savings account and most have a retirement plan from work or an individual retirement account.

Since the amount of equity/savings in someone’s house is often illiquid, and some have merged their “rainy-day-fund” into their savings account by the time retirement nears, we will just focus on your savings accounts and retirement plans in this memo.

The 4% Rule

In its most basic meaning, the 4% rule states that it’s safe to withdraw 4% per year from your savings account, and if you stick to this withdrawal methodology, the account is likely to last 30 years or more with a bit of luck.

Many believe it is an intelligent idea to remain flexible and to vary the withdrawals dependent upon the returns achieved from investment activity because, as you know, investment returns fluctuate. During downturns it seems sensible to consider withdrawing less and during periods where returns are abundant, you have the flexibility of either withdrawing a bit more or letting the core investment grow, giving you more latitude over the years to come.

Invest Intelligently and Remain Disciplined

It is important to be aware that “the 4% rule is meant to be a rule of thumb, and not a financial plan,” says Brendan McCarthy, from Nuveen. For those implementing the 4% rule, keep the following information in mind:

- The 4% rule largely applies to savings you have put away for retirement. If the savings are coming from a 401k plan or an IRA, you must remember taxes will be due upon

withdrawal. The good news is that *if you are retired*, your income levels are likely to be lower than during your employment – which likely means your income tax bracket will be lower during retirement than when employed.

- Your savings and your retirement plan can work together to optimize which account to access when spending.
- Avoid debt. Pay 100% of your credit cards each period, as the borrowing costs charged by the credit card issuers are typically 20% or more. This charge is far more than you should expect to receive on your investments (thus - using your investments and/or savings to repay your credit card debt is like making 20% or more on your investments).
- Keep in mind - during years when your investment returns are less than 4%, or negative, remaining flexible can help, meaning you might choose to withdraw a bit less during the down periods.
- The good news for most families is that during retirement years, some expenses decrease or disappear. For instance:
    - Educational expenses for most families are behind them as children are out of school and on their own.
    - Home mortgage payments are gone or nearly gone for most families leaving a significant amount of equity in your home which could offer an emergency account.

Over the last 125 years, investments in the U.S. stock market have delivered approximately 9% per year, including inflation, while the bond market has delivered a bit more than 4% including inflation.

The combination of a well-diversified portfolio in stocks, bonds, and cash has tended to return approximately 6%+ per year including inflation. (Which is a fairly conservative – read safe – assumption over time.)

Don’t Forget About Required Minimum Distributions (RMDs)

For those relying on the 4% rule, it will be important to remember – at age 73 RMDs will dictate your withdrawal amounts and timing. RMDs start forcing retirement plan owners to formulaically withdraw approximately 4% from all retirement accounts at age 73, and force distributions to increase as you age to approximately 7% at 85, and almost 12% when you are 95.

Intelligent planning may help you reduce the RMD demands on your retirement accounts.

Here’s how: after retiring, yet during the years before your RMDs kick in, your tax bracket is typically lower than normal. You might consider moving some or all of your retirement assets into a Roth IRA. Remember taxes are due at your current tax rate, and withdrawing assets from your retirement account may increase your taxes due.

The benefit is that by reducing the amount of assets in your 401k/IRA, you will reduce your RMDs, and by moving the assets directly into your Roth IRA from your 401k/IRA, you retain the ability to invest your assets and grow them tax free, with no RMD demands.

As We Grow Older Flexibility Becomes More Valuable

Goals can change over time, and so do external circumstances surrounding you and your family. As your goals and strategy change, adhering to the 4% Rule is likely to offer a

reasonable latitude of choices available during retirement. (It is advisable to work with an experienced advisor who guarantees to act as a legal fiduciary in all matters.)

Additional articles which may be of interest – Here are the links:

How much will your retirement lifestyle cost?

Where will your retirement income come from?