



## ADDRESSING RETIREMENT RISK • WITHDRAWAL SUSTAINABILITY

When it comes to retirement planning, a common question clients ask is, “What dollar amount should I have saved in order to retire safely?” However, the question is actually much deeper than that. The dollar amount an individual should have saved for retirement is driven from multiple factors such as: allocation of retirement account, inflation anticipation, and amount of income needed. With this in mind, it is important to have enough saved and invested in an appropriate allocation. The R.I.S.K. Process enables the client to build a retirement income plan that increases the chances that his or her savings will last throughout retirement. We call this the “Probability of Sustainability.”

**EXAMPLE:** Steve, 55, estimates that he will live no later than age 95. He is currently contemplating retiring at age 60 or 65. Steve is trying to determine how sustainable \$100,000 of income will be if he retired with an anticipated \$2,000,000 at age 60 or \$2,500,000 at age 65. Steve’s current allocation in his portfolio is a 40/60 blend between equities and bonds and does not anticipate changing his allocation in the future. We estimate that inflation in the future will remain around 3%.

Based on the information above, we can anticipate that if Steve retires in five years at age 60, with \$2,000,000 in savings, he will have a **32%** probability of success in retirement. This figure is calculated by taking the income divided by the nest egg (\$100,000/\$2,000,000), which is 5%, and then cross referencing that figure with the 35-year sustainability chart below for the applicable portfolio allocation (40/60).

If Steve decided to wait 10 years to retire at age 65, with a \$2,500,000 nest egg, he would have an **80%** probability of success in retirement. This figure is calculated by taking the income divided by the nest egg (\$100,000/\$2,500,000) which is 4%, and then cross referencing that figure with the 30-year sustainability chart below for the applicable portfolio allocation (40/60).

## PROBABILITY OF SUSTAINABILITY

		35 – Year Retirement Stock / Bond Mix				
Initial Withdrawal Amount		100/0	80/20	60/40	40/60	20/80
	3%	86%	89%	91%	93%	93%
	4%	70%	71%	70%	65%	52%
	5%	53%	51%	44%	32%	13%
	6%	38%	33%	23%	11%	1%
	7%	26%	19%	11%	3%	0%
	8%	16%	11%	4%	0%	0%

		30 – Year Retirement Stock / Bond Mix				
Initial Withdrawal Amount		100/0	80/20	60/40	40/60	20/80
	3%	90%	93%	96%	98%	99%
	4%	77%	79%	80%	80%	74%
	5%	60%	59%	55%	46%	28%
	6%	44%	40%	32%	19%	5%
	7%	31%	25%	16%	6%	0%
	8%	20%	14%	7%	1%	0%

The table above summarizes a study performed by T. Rowe Price Associates, Inc. (TRPA). It shows the probability of successfully sustaining a given withdrawal rate over an assumed 30-year retirement period. Success is defined as having one dollar left in the account at the end of the retirement period. The results are hypothetical in nature and are based upon Monte Carlo analysis of five model investment portfolios made up of different allocations to stocks, bonds and short-term bonds. The given withdrawal rates are assumed to be taken out in their entirety on the first day of year one, and then adjusted upwards annually by 3% for inflation. Clients should be aware that their actual investment results may differ from this study, and that their potential for loss (or gain) may be greater than illustrated in this example.

