

Retirees, What's Your Withdrawal Strategy?

By Mike Hanna

When planning for retirement, we often focus on the accumulation phase: saving diligently and investing wisely. We spend 40 or more years of our lives focused on building the proverbial “nest egg,” but after retirement, things change and so should our financial focus.

There are a variety of questions that must be answered. How much should you be withdrawing annually? Should you go with your IRA first or your brokerage account? Should you withdraw a fixed percentage or fixed amount? How much will you leave behind?

Having a well-planned withdrawal strategy is important:

- It helps to prolong the lifespan of your retirement savings.
- It may reduce your overall tax burden.
- It can provide a more balanced income stream.
- It can help in preserving your wealth for legacy purposes.

4 Common Withdrawal Strategies

There are a number of ways you can go about withdrawing money in retirement. As always, it helps to get advice from a trusted financial professional, but it never hurts to educate yourself on some options beforehand. We've compiled a list of four below that are commonly used. Which one sounds like the best fit for you?

1. *The 4% Rule*

You've probably heard of the 4% rule, a guideline suggesting that you withdraw 4% of your retirement savings in the first year of retirement, adjusting for inflation in subsequent years.^[1] For instance, if you have \$3 million in retirement savings, you withdraw \$120,000 in the first year.

This rule aims to provide a steady income while keeping the principal balance largely intact. However, it's not one-size-fits-all. The rule doesn't account for market volatility, interest rate trends, tax implications, unexpected expenses, or changing personal circumstances.

2. *Fixed-Dollar Withdrawals*

Some retirees choose to withdraw a set amount of money each year for a certain number of years. For instance, you might opt to take out \$100,000 every year and then check if this amount still works for you after five years. This approach gives you a steady income to plan your budget around, but it doesn't consider the rising cost of living due to inflation. Also, if you set the amount too high, you might start eating too far into the money you have invested. Plus, if the market is down and your investments are worth less, you might have to sell more than you'd like to get the cash you need.^[2]

3. *Fixed-Percentage Withdrawals*

Another withdrawal strategy is to take out a certain percentage of your total investments each year.^[3] How much money you'll get can change since it depends on how much your portfolio is worth at the time. This can make your annual income a bit unpredictable, but if you withdraw a smaller percentage than what your investments are expected to earn, your income and the value of your account could actually go up over time. But be careful—if you take out too much, you might run out of money sooner than you think.

For example, if you have \$3 million saved up for retirement, and you decide to withdraw 3% per year, you'll have \$90,000 to use that year.

4. *Systematic Withdrawals*

With a systematic withdrawal strategy, you only withdraw the income (such as dividends or interest) created by the underlying investments in your portfolio. Because your principal remains intact, this is designed to prevent you from running out of money and may afford you the potential to grow your investments over time, while still providing retirement income.^[4] However, the amount of income you receive in any given year will

vary, since it depends on market performance. There's also the risk that the amount you're able to withdraw won't keep pace with inflation.

Are there other withdrawal strategies? Certainly. Which strategy is best for you? That really depends upon your unique situation. If you're approaching retirement or lack confidence in your current strategy, we're here to help.

[1] "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies. Accessed 7 Dec. 2023.

[2] "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies. Accessed 7 Dec. 2023.

[3] "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies. Accessed 7 Dec. 2023.

[4] "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, \ <https://www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies#:~:text=The%204%25%20rule%20is%20when,your%20first%20year%20in%20retirement>.

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