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# Is the 4% Rule Still Viable?

Ruffenach: A fresh look at the so-called 4% retirement-withdrawal rule.

By GLENN RUFFENACH

So ... you've put the finishing touches on your retirement plan, and you're set to withdraw 4% from savings each year, because that's what financial planners (and columnists) have long advised.

Can you guess what's coming?

Last year, a research paper in the *Journal of Financial Planning* predicted that a safe nest-egg withdrawal rate for retirements begun in 2010 is 1.8%. In other words, a new retiree with $500,000 should pull no more than $9,000 from savings annually to help ensure that his money lasts as long as he does. Stunned? Wait. There's more.

Within weeks of that report's appearance, a study in *Retirement Management Journal* made the case that a safe withdrawal rate for some individuals could be as much as 7%. Which means the same person with $500,000 could start retirement by pulling about $35,000 from savings annually.

See? Isn't retirement-planning fun? In fact, both papers make some intriguing points. (We'll get to them in a moment.) But here's the real lesson: Retirement planning -- or rather, good retirement planning -- is never really finished. Ideally, your particular plan is open to new ideas and research and, as such, is able to evolve.

Take the so-called 4 percent rule. Based on pioneering work in the early 1990s by William Bengen, a certified financial planner in El Cajon, Calif., the rule states that retirees can pull about 4% annually from their nest egg, with a high probability that their savings will last 30 years. (Bengen himself eventually set the figure at 4.5%.) The findings helped establish budgets and spending patterns for countless individuals. Recently, though, researchers have been investigating how additional variables -- investment fees, the timing of retirement, retiree spending patterns -- could affect Bengen's benchmark. Here's what some of that work might mean for your retirement.

## On your mark

"Market valuations" -- the relative health of markets at the moment you enter retirement -- are now an important part of calculating withdrawal rates. The thinking: Markets move in cycles (bull markets follow bear markets, and so on), and we can measure (to some extent) whether we're on the cusp of the former or the latter. Why is that important? If you happen to retire at the start of a bear market and withdraw too much too soon, your nest egg might expire before you do.

In his study in the *Journal of Financial Planning*, economist Wade Pfau notes that when price/earnings ratios (to cite one marker) are at or above historical averages, as they are today, investors in coming years are more likely to see anemic returns. As such, a new retiree would want to keep his initial withdrawal rate on the low side -- perhaps as low as (gulp) 1.8% -- to weather coming storms.

## Care to gamble?

Most research into withdrawal rates assumes retirees, in effect, want a guarantee that their savings will last 30 years or more. But what if you're willing to gamble? Would you risk having (virtually) no savings for a brief period late in life in order to draw more early in retirement? Having a pension, for instance, might make that a risk worth taking.

That's the question Duncan Williams and Michael Finke, a doctoral student and professor, respectively, at Texas Tech University, tackle in *Retirement Management Journal*. One possible answer: Some risk-tolerant retirees could start with a withdrawal rate of 7%.

## And what if you're risk averse?

Even a 95 percent chance of success, when it comes to a nest egg's long-term survival, "may still represent a significant risk," says Ed Easterling, founder and president of Crestmont Research, a Corvallis, Ore.-based investment-research firm. His example: A surgeon tells you she has a sterling 95% success rate with the operation she's about to perform -- and mentions that she operates 20 times a week. That means, of course, that one surgery per week, on average, will go bad. Easterling's point: A 95% success rate might sound good to others -- but is it good for you?

## Running the numbers

Financial coach Todd R. Tresidder, founder of FinancialMentor.com, offers a four-step method for figuring withdrawal rates that reflects much of the recent research: Estimate your life span, assess market valuations at the time you retire, account for variables like inflation and investment fees, and revisit your plan regularly. Tresidder is confident that investors can run the numbers themselves -- but I'm less so. Get your adviser to help with this.

## Holding its value

And what of Bill Bengen, father of the 4% rule? One of the most affable people in the financial-planning industry, Bengen has never claimed that his findings are right for every retiree. Indeed, he thinks some of the latest research about market valuations is "terrific."

He told me recently that he started with a specific set of assumptions: a retirement lasting 30 years, with savings in a tax-deferred account and nothing left for heirs. Change just one of those parameters, he says, and your "safe" withdrawal rate may differ.

Still, Bengen notes, 4% remains a prudent jumping-off point for calculating withdrawal rates from nest eggs. Just keep your plan open to some adjustments.

FINANCIAL GLOSSARY

**Words used in this article:** certified financial planner, bear market, averages, timing, benchmark,

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