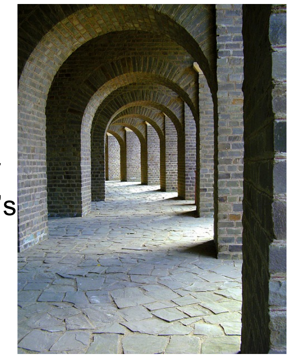
WILL MONEY LAST MY LIFETIME?



Perhaps the most worrisome question faced by retirees is "Will my money last my lifetime?"

The only person I know who accurately answered that question was the comedian, Henny Youngman, who quipped, "I've got all the money I'll ever need, if I die by four o'clock." For everyone else, there is no way of answering this question with 100% certainty, as life is full of ups, downs and unknowns. However, there are ways of tipping the scales in your favor, so let's examine them.

Live on the Interest

One strategy is to spend just the interest and dividends, while preserving the principal of your retirement capital. This is not a bad strategy, but will it work? In today's paltry interest rate world, most portfolios cannot generate enough in interest income to live on. If your bank CD is paying you 1% (a generous assumption), your $1 million account only provides you with $10,000 a year. Of course, you can also live on dividends, and there you can find higher yields from many companies, but you must also now balance the risk of investing in stocks or stock funds with this higher yield.

Income Annuities

Another strategy is to purchase an income annuity from an insurance company. Until recently, these annuities required you to irrevocably surrender your money to the insurance company in exchange for their promise to pay you a certain sum of money for the rest of your life. The good news was that you had monthly income that would always be there. The bad news was that you no longer had the asset. More recently, insurance companies have added riders such as a "Guaranteed Lifetime Withdrawal Benefit" (GLWB) which allow you to withdraw, without annuitizing your policy, a percentage (e.g. 5%) of a base amount (your original investment, potentially increased by investment gains). This is like having your cake and eating it too. You retain and control your policy and also get the assurance of a minimal lifetime income. Well, I did mention that this is a rider, and therefore costs you something. Expect to pay around 1% per year for this feature. In addition, a withdrawal of more than the minimum guarantee may jeopardize the rider.

The "4%" Rule

The "4%" rule does not say "take out 4% of your investment value each year." If you did that, you would actually never run out of money. Instead, the 4% rule says that if you base your distribution in the first year of retirement on 4%, and then increase future distributions only by an inflation factor, the odds of your money lasting a lifetime are OK – at least most of the time. For example: You have a $1 million portfolio. In the first year of retirement you withdraw $40,000 (4%). In the second year, you increase the $40,000 only by an inflation factor. So, if inflation was 3%, your withdrawal in the second year is $41,200. You continue this process each year. Note that 4% is no magic number. In good times, more than 4% may be acceptable. In nasty economic times (like the past few years), a smaller percentage is warranted.

The IRS

When you turn 70 ½ years old, you have to begin withdrawing money from your retirement accounts. The minimum you must withdraw is an increasing percentage of your account value as of the end of the previous year.

The IRS maintains “required minimum distribution tables” to use in this calculation. For example: at age 70, you must withdraw 3.65%; at age 75 it is 4.37%; and at 80 it is 5.35%. If you apply these percentages to all your investments (not just retirement assets), you have a spending plan that is relatively simple (just multiple the % times your investment value) and one that adjusts both to your advancing age and the changes in value of your investments.

Which approach should you take? No strategy is full proof and they all have pros and cons. But any strategy is better than no strategy at all.

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