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Expert & Software Creator Shares Tips for Calculating Withdrawal Rates in Retirement

“Who has my back in retirement?” – That’s the question pre-retirees and retirees want answered when it’s all said and done, says veteran financial planner David Zolt.

Baby boomers have been retiring in droves in recent years, and will continue to do so throughout the next decade – 10,000 of them a day, the Pew Research Center estimates. Unfortunately, the average boomer is about a $500,000 short on their savings, according to a recent survey by TD Ameritrade.

We have already entered upon an unprecedented moment in retirement history; never has so many people, with such variability in financial wealth, retired at once, Zolt says.

“Clients want to know when they can retire, how much they can withdraw from their savings and how confident they can be that they won’t outlive their money,” says Zolt, a senior consultant who created retirement income planning software for financial advisors.

“If the facts of their wealth do not support their goals for retirement, then they’ll need to do one of three things: adjust their expectations, change their financial behavior or know how to improve their wealth, because the last thing any retiree wants is to run out of money while in their 80s or 90s.”

Zolt breaks down some fundamental aspects of retirement that may help boomers and others make better financial decisions after their working years.

The “4 percent” rule – a good target for withdrawals: When can you start pulling from your retirement portfolio, and how much should you withdraw? Twenty years ago, Bill Bengen came up with the answer: A well-allocated portfolio subjected to an initial 4 percent withdrawal, and adjusted for annual inflation thereafter, would survive at least 30 years in almost all scenarios. Given today’s market, however, once-stable rules have been significantly challenged. Just one factor in recent years throwing off Bengen’s rule are low bond yields, which historically averaged 5 to 6 percent, but today are much lower. “Four percent is still a good target, but it’s

not absolute!" Zolt says.

The seven variables to consider in retirement planning: Seven variables should be included in an individual retiree's plan: portfolio size, portfolio return, savings, living expenses (including taxes), years to retirement and withdrawal rate. Each of these variables is multifaceted, and it's important to understand how each affects the others. To troubleshoot this complexity, Zolt created affordable, easy-to-use retirement-planning software called The Retirement Planner by RetireSoft, (www.RetireSoft.com) for financial advisors. "Retirement planning is an equation; rather than assuming the 4 percent rule, I've fixed other variables by making the number of years to retirement the variable and solving for the withdrawal rate, which is a key component to retirement planning," Zolt says.

A simple formula calculating withdrawal rates: Whether you're working with a professional or you're a DIYer, retirees and pre-retirees want to know how much they should have in savings; how much they'll receive from fixed income sources, and what they'll be spending for living expenses. Here's a simple formula…Subtract your annual fixed retirement income (Social Security, pensions) from your expected annual living expenses in retirement, including income taxes. That's how much you'll need to withdraw from savings each year. If the figure is 4 percent, and you have a well-balanced portfolio, you can reasonably expect to have a reliable income during retirement for 30 years. If the total is 5 percent, you probably have enough to last 30 years, but you may have to cut back on your spending later in retirement. If the percentage is 8 percent, you don't have enough money to pay for many years of retirement.

About David Zolt: David M. Zolt, CFP®, EA, ASA, MAAA worked more than 25 years in retirement and employee-benefit planning as a senior consultant. His position as trusted advisor to the managers of some of the largest pools of liquid assets in the world gave him the rare opportunity to watch professionals advise multi-million and multi-billion dollar pension funds utilizing the best practices of investing. In the process, he learned firsthand how seasoned professionals invest. Zolt's clients included The Ford Motor Co., American Greetings, The United Nations, The World Bank and The International Monetary Fund.