

# The Harvester

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## How much can I spend when I'm retired?

This is a question that many of us ask ourselves, whether we are about to embark upon retirement or are several years away yet. There are a number of factors that one has to look at including spending habits, age, amount of retirement assets available and current market conditions that will impact this decision.

Below are the results of a study we undertook to see how well a portfolio holds up under different scenarios, during both a bear market and a bull market. Our starting portfolio value is \$1 million in each case and our annual spending amount is a fixed amount of the original portfolio value. For example, a 10% spending rate is a constant annual amount of \$100,000 (\$1 million x 10%) over the ten period.

The charts demonstrate that a bull market can be very forgiving to someone spending a large percentage of their assets while a bear market is potentially devastating. Specifically, if an investor retired at age 65 in our bear market example, invested his/her portfolio equally in stocks & bonds and decided to

withdraw 12% annually, they would be left with only \$83,004 when they turned 75. However, if the investor retired before the bull market starting in 1983, they would have \$1,397,865 left in their portfolio and could still enjoy a comfortable retirement. Quite a difference!

Obviously, stock market conditions play a big role in the ongoing financial health of your retirement assets. However, inflation, which was not considered in this study, can play an equally important role. Even at just 3%, inflation will cause the cost of goods to double in 24 years!

There is no black and white answer to our original question although a number of investment professionals have considered the same question and 5% seems to be a consistent answer. However, each individual client's needs are different and should be evaluated on a case by case basis. By helping our clients with this decision, we can ensure that they will have a rewarding retirement without worrying about running out of money.

### Bear Market (1/1/73 – 12/31/82)

Account Value at the End of 10 Years

		Percent of Assets Spent			
		6%	8%	10%	12%
<b>A S S E T</b>	100% Bonds	\$1,215,597	\$901,361	\$587,125	\$272,890
	75% Bond/25% Stocks	\$1,178,889	\$851,356	\$523,823	\$196,289
	50% Bonds/50% Stocks	\$1,101,442	\$761,963	\$422,484	\$83,004
	25% Bonds/75% Stock	\$985,248	\$635,374	\$285,501	0 – After 9 years, 4 mos.
<b>I X</b>	100% Stocks	\$833,852	\$475,318	\$116,785	0 – After 8 years, 2mos

\* Based on a \$1 million portfolio and percent of portfolio spent is not inflation adjusted.

### Bull Market (1/1/83 – 12/31/92)

Account Value at the End of 10 Years

		Percent of Assets Spent			
		6%	8%	10%	12%
<b>A S S E T</b>	100% Bonds	\$1,864,126	\$1,535,469	\$1,206,812	\$878,156
	75% Bond/25% Stocks	\$2,173,598	\$1,824,535	\$1,475,473	\$1,126,411
	50% Bonds/50% Stocks	\$2,507,655	\$2,137,725	\$1,767,795	\$1,397,865
	25% Bonds/75% Stock	\$2,865,553	\$2,474,383	\$2,083,212	\$1,692,041
<b>I X</b>	100% Stocks	\$3,246,143	\$2,833,459	\$2,420,775	\$2,008,091

\* Based on a \$1 million portfolio and percent of portfolio spent is not inflation adjusted.

