4 Threats TO THE *4% Retirement Rule*

By Joshua Bradley, Managing Partner and Financial Advisor

Our industry often speaks in common rules of thumb or words of wisdom, meant to take complex financial situations and provide simplistic ideas that folks can implement on their own. The problem with using these oversimplified ideas is that each person's situation is unique — you should not bet something as important as your retirement on a strategy that works on average for most people.

One of the most popular rules of thumb is known as the 4% retirement rule. This concept was created more than 20 years ago to help retirees figure out the largest sum they could safely withdraw from their investments each year without running out of money.

The idea behind this rule is that you can live off taking a distribution of 4% from your investments each year and have a very low probability of ever exhausting the funds. The biggest problem with this strategy is that it does not guarantee that you will not run out of money; furthermore, it potentially prevents you from spending extra funds that your resources could have handled.

WITH CURRENT CONDITIONS, SIGNIFICANT THREATS IMPEND THIS STRATEGY:

Higher market valuations. Most believe the returns of the next 30 years will not be as good as the last.

Lower interest rates. Most CDs and bonds are paying a fraction of what they were 20 years ago.

Higher taxes. The Trump Tax Cut is going to sunset in 2026, which means most will see a higher tax rate that would eat into their net income.

Higher inflation. With cheap money from The Fed and increased stimulus spending, inflation is likely to increase.

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These several issues are primary reasons why we prefer a more customized plan for retirement. You don't want to wake up one day in retirement and realize you do not have enough. In the same way, it would be almost as bad to wake up realizing you could have done so much more in retirement.

In working with clients, we typically like to break up their retirement income into two buckets: "basic necessities" and "fun stuff." We believe that your basic retirement income needs should not be based on probability; instead, they should be rock solid and as safe as possible. That's why we work hard to ensure the funds in your basic necessities bucket will give you utmost confidence in a secure financial future.

For the fun stuff bucket, we follow a dynamic distribution strategy. Following conditions like interest rates and market returns, this would distribute from 4% to 8% of income each year. The most important thing is that you should never have to doubt where your basic income will come from if the worst-case scenario presents itself.

If you have any questions, call us today at 803.782.0671 or email us at Relations@CapitalCityFP.com. We want to help you pursue your financial goals.

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