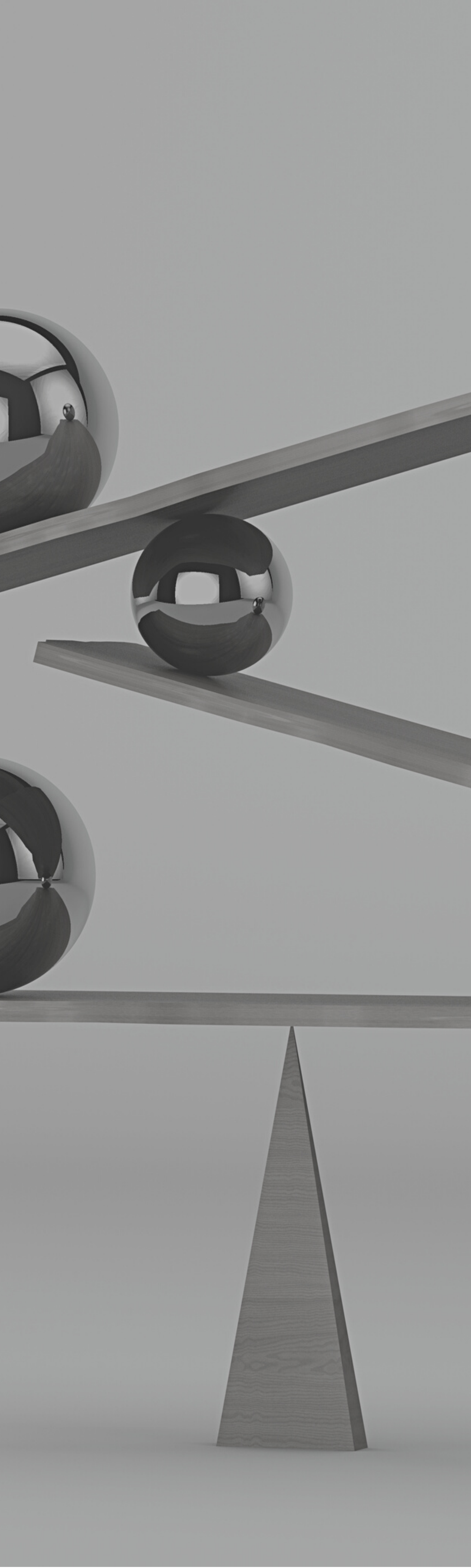


BALANCING YOUR RETIREMENT PORTFOLIO

Retirement Planning Series: Part 3

CK WEALTH MANAGEMENT

For most of our life, savings usually come second to our day-to-day expenses. When money is left over, we put that away into our savings.

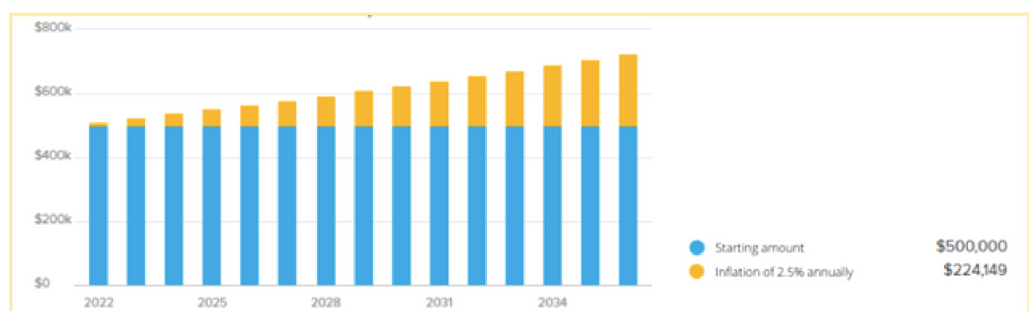
This changes once you enter retirement; you withdraw money from your account rather than adding anything.. This can present a real worry for most people; if you start saving too late in life or too little with every paycheque, it will come back to haunt you when it's time to spend instead of saving.

So, how much money can you withdraw safely without running out of your savings prematurely?

WHAT IS A REASONABLE WITHDRAWAL RATE?

Expressed as a percentage, this is the rate of money you can withdraw from your retirement portfolio with a low risk of running out of money. A commonly used rule of thumb is 4% annually. This rate, factoring in inflation, suggests a very low chance that you would run out of money within the next 30 years.

For example, if you retired at 65 with $500,000 in savings, your withdrawal in your first year of retirement, assuming the 4% rule, would be $20,000. In year 2, you would withdraw another 4%, adjusted for inflation. You can see how this can add up quickly!



Assuming a 2.5% inflation rate, within 15 years, you would see over $200,000 in inflation expenses.

IS 4% THE RIGHT AMOUNT?

Although many studies show that a 4% withdrawal rate can be sustainable, keeping in mind how our economy and inflation rates are changing is essential. You'll need to find the number suited to your specific needs. .

Depending on your lifestyle and other factors like health, family size or home ownership, this number is bound to fluctuate for everyone - the "right" rate for someone could be between 3% and 10% since it's ultimately impossible to predict these factors ahead of time.

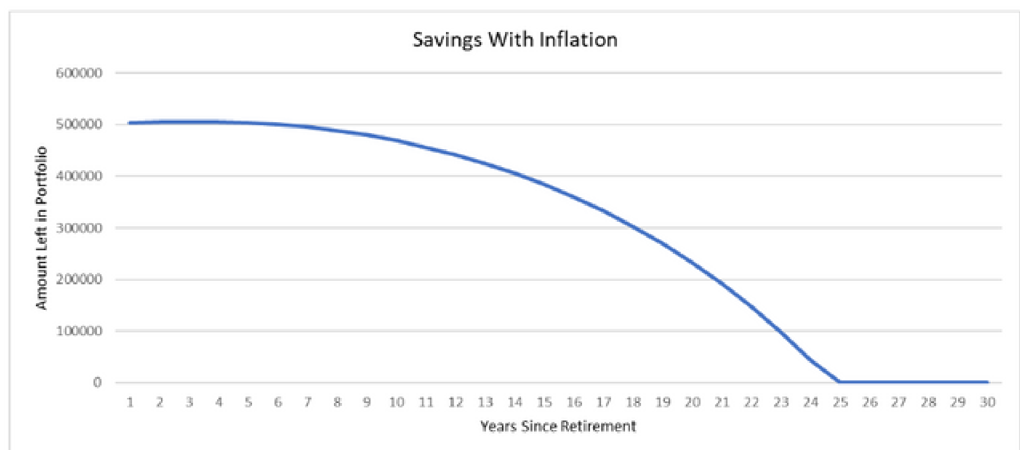
But remember that careful planning is critical in ensuring that your withdrawal rate is suitable for you - even a 1% change in the withdrawal rate can drastically affect your retirement portfolio and increase the risk of you running out of savings.

THE EVER-CHANGING INFLATION RATES

Inflation rates can be tricky regarding retirement planning; rates can be higher than what you initially expected.

If you have saved $500,000 and are withdrawing $30,000 per year (6% withdrawal rate), you should have enough savings if inflation stays around 2.5%. As we have experienced recently, this is often not the case.

What if inflation goes up to 4% in your early retirement years? As you can see from this graph, your savings could run out within 25 years.



Inflation: 4%/year for the first 10 years, 2.5%/year thereafter

Your investment choices are critical in determining the future of your retirement. The higher your portfolio returns, the more money you save in the long run, letting you deal with unexpected rates and expenses much better when you enter retirement.

PREPARING ACCORDINGLY

Retirement doesn't mean that you have to save more than you spend, it means finding the right balance between your needs and current inflation rates, that allow you to plan and prepare for the future.

Determining the correct withdrawal rate for you while investing in a portfolio that will continue to grow while providing income, always with inflation in mind, are just a few of the challenges that a valued advisor can help you manage.

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