

How Can I Make My Retirement Savings Last?

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Withdraw only 4% to 5% from savings yearly, with adjustments for inflation.



Key Takeaways

- The sustainable withdrawal rate is the estimated percentage of savings you're able to withdraw each year throughout retirement without running out of money.
- As a rule of thumb, aim to withdraw no more than 4% to 5% of your savings in the first year of retirement, then adjust that amount every year for inflation.
- Your sustainable withdrawal rate will vary based on things you can't control—like how long you live, inflation, market returns—and things you can—like your retirement age and investment mix.

After decades of saving, it's time to start spending once you enter retirement. But how much can you safely withdraw each year without needing to worry about running out of money? The answer is critical, as retirement can last 25 years or more these days, so you need a strategy that's built for the long haul.

A sustainable withdrawal rate

We did the math—looking at history and simulating many potential outcomes—and landed on this: For a high degree of confidence that you can cover a consistent amount of expenses in retirement (i.e., it should work 90% of the time), aim to withdraw no more than 4% to 5% of your savings in the first year of retirement, and then adjust the amount every year for inflation.

Of course, your situation could be different. For example, you might want to withdraw more in the early years of retirement when you plan to travel extensively, and less in the later years. But this 4%-to-5% rule of thumb offers a handy guideline for planning.

Let's look at a hypothetical example. John retires at age 67 with \$500,000 in retirement accounts. He decides to withdraw 4%, or \$20,000, each year for expenses. Since John plans on withdrawing an equivalent inflation-adjusted amount from savings throughout his retirement, this \$20,000 serves as his baseline for the years ahead. Each year, he increases that amount by inflation—regardless of what happens to the market and the value of his investments.

Withdrawal math: 4% rule in action

John has \$500,000 in retirement savings and plans to retire at age 67. Here's how much he may want to withdraw each year.

	Withdrawal rate		Retirement savings		Withdrawal amount
1st Year	4%	x	\$500,000	=	\$20,000
2nd Year	Withdrawal amount \$20,000 for 1st year	+	Inflation 2.5% in the 1st year	=	\$20,500
3rd Year	Withdrawal amount \$20,500 for 2nd year	+	Inflation 2.5% in the 2nd year	=	\$21,013

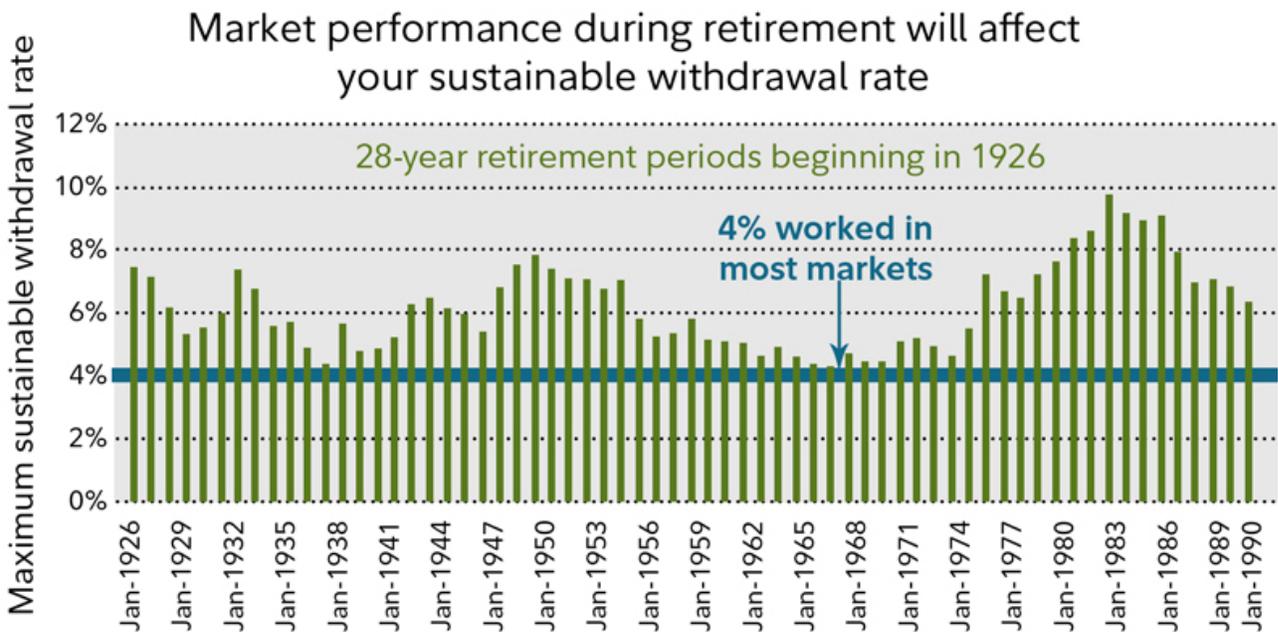
"The sustainable withdrawal rate is a useful rule of thumb for retirees looking to withdraw steady amounts from their retirement savings," says Adheesh Sharma, vice president of financial solutions at Fidelity. "However, it is important to understand how the rule works. The rate just gives you a starting point for your withdrawal amount, which has to be adjusted annually for inflation."

A look back at history

Of course, your actual sustainable withdrawal rate will vary based on many things, including some you can't control—like how long you live, inflation, and the long-term risk and return of the markets—and others over which you may have some control—like your retirement age and the investments you choose.

History suggests that the prevailing market environment at the time of your retirement may be particularly important, as a weak market early in retirement can significantly diminish your nest egg, especially if you don't dial down your withdrawals with the declining markets. On the other hand, a strong stock market early in retirement can put the wind at your back—financially speaking—for decades.

Consider the chart below, which illustrates a historical look at how much an investor could have withdrawn from savings without running out of money over a 28-year retirement, depending on the date of retirement. As you can see, actual sustainable withdrawal rates varied widely,¹ from just under 10% if you retired in 1982, at the beginning of a roaring bull market, versus more than 4% if you retired in 1937, during the Great Depression.



Past performance is no guarantee of future results. For illustrative purposes only. Analysis examined 776 completed 28-year planning horizons, the first of which began on Jan. 1, 1926, and the last of which began on August 1, 1990, ending July 31, 2018. The bar chart shows the maximum sustainable withdrawal rate at the beginning of each assumed retirement year. Withdrawal rates and portfolio returns are pre-tax and use the historical rate of inflation. See footnote 1 and 4 for important details. Source: Morningstar EnCorr, Fidelity, as of August 13, 2018.

This analysis is based on a 90% chance that the portfolio would not run out of money within a given retirement horizon. The 90% confidence level reflects the "strong plan" framework used in Fidelity's retirement planning tools.

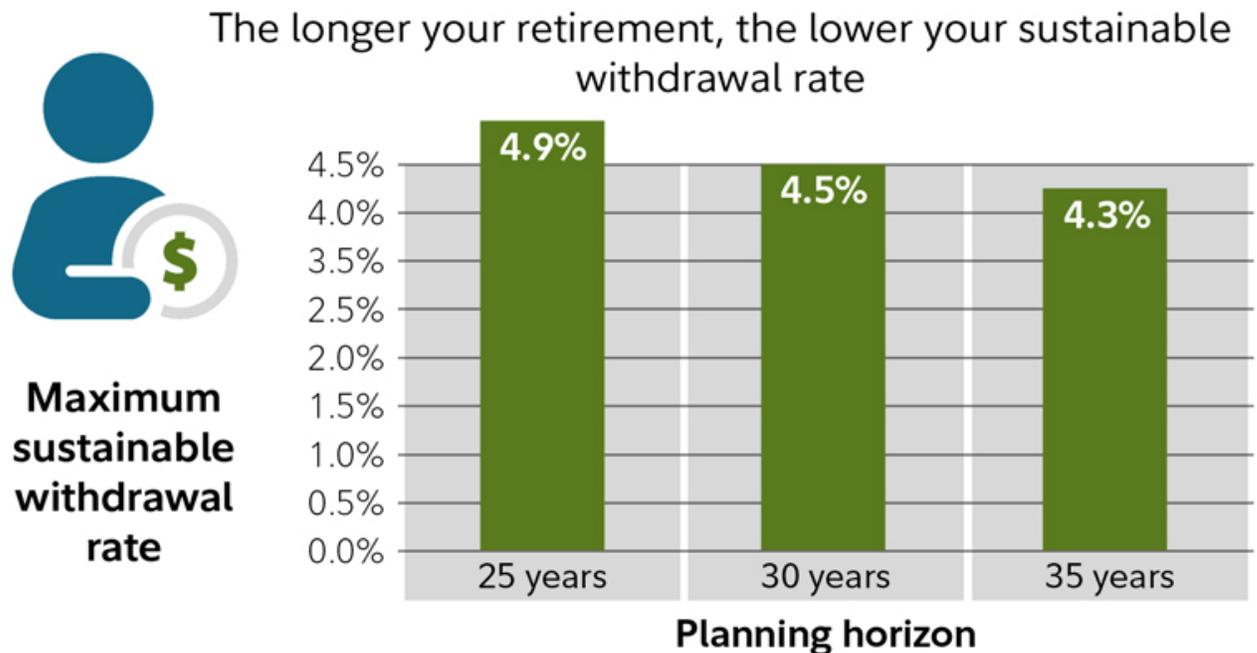
Of course, 4% to 5% is just a starting point. Our research shows how things you can control—like your retirement age, and investment mix—can play a role in figuring out the right number for you.

Take your timeline into account

One of the biggest factors that affects how much you can withdraw is how many years of retirement you plan to fund from your retirement savings. Say you plan on a retirement of 30 years, you invest in a balanced portfolio, and want a high level of confidence that you won't run out of money. Our research shows that a 4.5% withdrawal rate would have been sustainable 90% of the time (see graph below).²

But if you work longer—say you expect to retire at age 70—or if you have health issues that compromise your life expectancy, you may want to plan on a shorter retirement period—say, 25 years. The historical analysis shows that, over a 25-year retirement period, a 4.9% withdrawal rate has worked 90% of the time.

On the other hand, if you are retiring at age 60 or have a family history of longevity, you may want to plan for a 35-year retirement. In that case, 4.3% was the most you could withdraw for a plan that worked in 90% of the historical periods. These may sound like small differences, but they could equate to thousands of dollars in annual retirement income.



Past performance is no guarantee of future results. 812, 752, and 692 overlapping planning horizons were analyzed for, respectively, 25-year, 30-year, and 35-year scenarios. Monthly returns data were used, starting from January 1926 and ending at July 2018. **The chart shows historical maximum sustainable withdrawal rates that produced a 90% success rate over various time periods since 1926. Hypothetical scenarios assume a balanced portfolio of 50% stocks, 40% bonds, and 10% cash. Results are hypothetical and do not reflect actual investor experience. For illustrative purposes only. See footnote 2 for important details.**

The good news is that even with the market's historical ups and downs, these withdrawal amounts worked most of the time—assuming that investors stuck to this balanced investment plan. (See footnote 3 for more details on how these results were calculated.) The takeaway from this analysis is that the longer your retirement lasts, the lower the sustainable withdrawal rate.

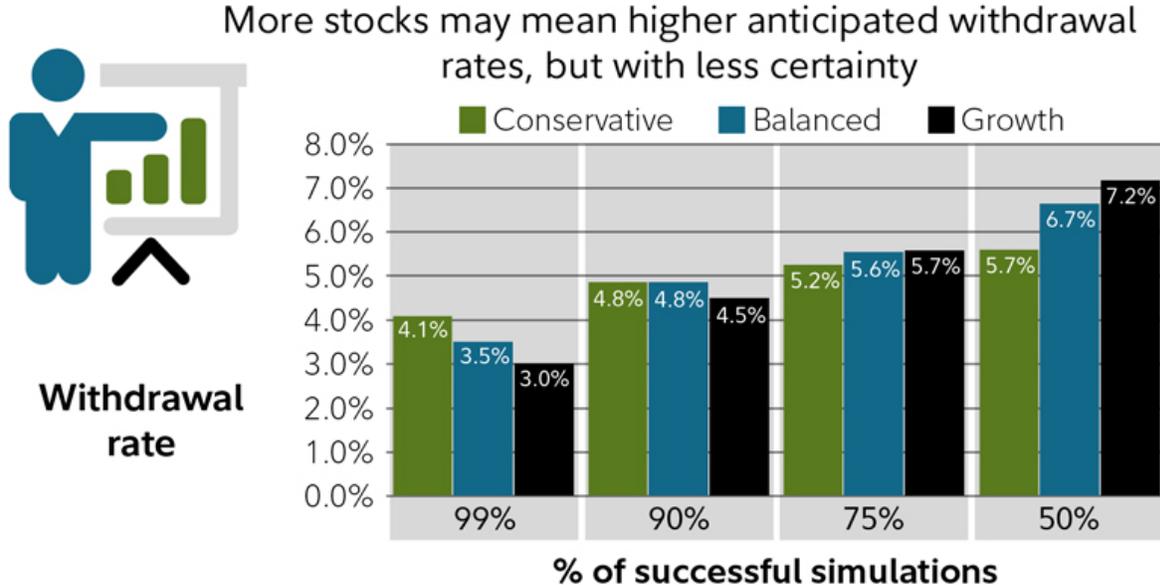
For people whose retirement planning includes a spouse or partner, it's important to consider not only the life expectancy of each person, but also the likelihood that one or the other will still be living (referred to as joint life expectancy).

How you invest can be important too

The mix of investments you choose is another key to how much you can withdraw without running out of money. Portfolios with more stocks have historically provided more growth over the long term—but have also experienced bigger price swings. Consult with your advisor to determine an investment mix appropriate for your financial situation.

Another important factor in determining the right asset mix for you: the degree of confidence you need that your money will last your lifetime. As the chart below illustrates, in about half of the hypothetical scenarios we tested, a growth portfolio (70% stocks, 25% bonds, and 5% cash) would have allowed you to withdraw more than 7% each year over 25 years of retirement—over 25% more than a conservative portfolio (20% stocks, 50% bonds, and 30% cash) with a sustainable withdrawal rate of 5.7%.⁴

If you want a much higher degree of confidence, the analysis suggests that increasing equity exposure doesn't raise the sustainable withdrawal rate, and in fact becomes counterproductive. At a 90% confidence level, the sustainable withdrawal rate for the conservative portfolio is 4.8%, versus 4.5% for the growth portfolio. For a 99% confidence level, the analysis suggests you could withdraw 4.1% from the conservative portfolio, versus only 3% from the growth portfolio.⁴



Data are for illustration only. All results are hypothetical and based on simulations using historical data, since 1926. Assumes a 25-year retirement period. See footnote 4 for important details.

If you feel you need high confidence that your savings will last throughout retirement—and in particular if you find volatility unnerving—history suggests that a high allocation to stocks may

be less attractive to you. Work with your advisor to create a financial plan that best suits your needs.

Consider the role of guaranteed income⁵

Choosing the right withdrawal rate can improve your odds of success, but it won't guarantee that you won't run out of money. Some products, like annuities, do offer that guarantee.⁵ While investing always involves risk, some insurance products guarantee a stream of income until death, thus eliminating the risk of outliving that portion of your savings. Of course, there are trade-offs: Most annuities restrict or even eliminate your access to your assets, and are subject to the claims-paying ability of their issuers. Still, this is one way to deal with the lifetime income challenge, particularly when it comes to essential expenses.

Bottom line

For many people, planning for withdrawals in retirement can be challenging. And no wonder, given the range of uncertainties, from how long you will live, to market performance, inflation, taxes, and more. Our rule of thumb provides a starting point, but every individual needs to consider these uncertainties, and their personal situation, when evaluating how much they can sustainably spend in retirement. Make sure to consult your financial advisor.

- Estimate how long you think you will live based on your health and family history. You may want to be conservative, since many people underestimate their lifespan.
- Evaluate how much investment risk you can live with.
- Choose an appropriate mix of investments with your advisor.
- Make sure your money is likely to last, by choosing a withdrawal rate you believe has a good chance of success.

You may find that a little planning can help to give you more confidence so that even if you can't know the future, you will be more prepared for what comes your way.

1. For the illustration, "Market performance during retirement will affect your sustainable withdrawal rate," Fidelity analyzed 776 completed 28-year planning horizons, the first of which began on January 1, 1926, and the last of which began on August 1, 1990, and ended on July 31, 2018. The bars show the maximum observed withdrawal rate for one period each year for a balanced portfolio of 50% stocks, 40% bonds, and 10% cash. Withdrawal rates and portfolio returns are pretax and use the historical inflation data for each horizon. Planning horizons are not independent, as they contain overlapping months. See footnote 3 for more information on asset classes and historical returns.

2. For the illustration, "The longer your retirement, the lower your sustainable withdrawal rate," 812, 752, and 692 overlapping planning horizons were analyzed for, respectively, 25-year, 30-year, and 35-year scenarios. Monthly returns data were used, starting from January 1926 and ending at July 2018. The bars show the maximum observed withdrawal rate for the 3 planning horizons such that the hypothetical portfolio did not run out of money in 90% of the scenarios. A balanced portfolio of 50% stocks, 40% bonds, and 10% cash was assumed for the analysis. See footnote 3 for more information on asset classes and historical returns.

3. Monthly return data for stocks (domestic and foreign), bonds, cash, and inflation used various indexes as proxies. The historical range analyzed was January 1926 to July 2018. The indexes used were: stocks

(domestic)—Ibbotson Associates (IA) SBBI S&P 500 Total Return (TR); stocks (foreign)—MSCI EAFE TR; bonds—IA SBBI US Intermediate-Term Government TR; cash—IA SBBI US 30-Day Treasury Bill TR. The stock component of each portfolio was selected to include 70% domestic and 30% foreign stock, from Jan. 1970 to Jul. 2013. Because MSCI EAFE data is available only from Jan. 1970, the stock component before that time was 100% domestic equity (S&P 500 TR). Historical inflation rates were derived from the IA SBBI US Inflation Index.

4. The chart, "More stocks may mean higher anticipated withdrawal rates, but with less certainty," was created based on simulations that relied on historical market data. The historical range analyzed was January 1926 to July 2018. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions. The illustration compares 3 different hypothetical portfolios—conservative, with 20% stocks, 50% bonds, and 30% cash; balanced, with 50% stocks, 40% bonds, and 10% cash; and growth, with 70% stocks, 25% bonds, and 5% cash. For each of the hypothetical portfolios, the maximum withdrawal rate was calculated such that the portfolios do not run out of money in 99%, 90%, and 50%, respectively, of the hypothetical scenarios. See footnote 3 for more information on asset classes and historical returns.

Portfolios were rebalanced at the end of every month. No transaction costs were assumed for rebalancing, nor were any fees included. These costs would reduce portfolio returns. Neither asset allocation nor diversification ensures a profit or guarantees against a loss. All indexes are unmanaged. You cannot invest directly in an index. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns also will generally be reduced by taxes.

5. Guarantees apply to certain insurance and annuity products and are subject to product terms, exclusions and limitations and the insurer's claims paying ability and financial strength. Past performance is no guarantee of future results.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.