WITHDRAWAL STRATEGY 3.0

Spending More Savings Safely

How much can an individual withdraw from retirement savings without running out of money?

This question continues to challenge professionals and the public alike. For years, advisors and clients have relied on various methods to guide portfolio withdrawals for retirement income: the "4% rule," other rules of thumb, or simply the client's estimated spending needs. More recent strategies use required minimum distribution (RMD) withdrawals as a basis for spending. These approaches focus on the sustainability of the portfolio, or their income needs, not the ability of a retiree to draw on their savings to achieve personal goals in retirement.

Social Security, Annuities Change the Picture

Neither of the 4% rule nor the RMD rule adjusts based on other forms of guaranteed income, but most people have social security and many have annuities or pensions. And with advisors increasingly using annuities to help their clients create additional retirement security, there are even more reasons to consider how guaranteed income might change sustainable withdrawals.

The CANNEX Adaptive Withdrawal Strategy is a patented method to achieve both objectives, while considering an individual retiree's situation and preferences, adjusting as necessary along the way—and taking into account any sources of lifetime income. The idea is to give retirees permission to spend money earlier in retirement while keeping them on a safe spending trajectory. The strategy is adaptive because it takes into account multiple factors specific to the client and changes based on market performance and the client's situation and preferences.

To better understand how the CANNEX Adaptive Withdrawal Strategy can support retirement income planning, we compare its performance against the 4% rule and RMD-based income in a new white paper—*How to Spend More in Retirement Safely: The CANNEX Adaptive Withdrawal Strategy.*

QUICK FACTS

How Does the Strategy Work?

The maximum withdrawal (annual or monthly) is calculated based on the following information: (1) age and gender of the retiree; (2) the amount of guaranteed lifetime income in place; and (3) total amount of savings dedicated to retirement income and the allocation of that portfolio.

The methodology incorporates actuarial longevity as well as expected guaranteed income. Our algorithm uses the asset allocation of the savings portfolio to determine overall risk tolerance that reflects their income goals to calculate withdrawals. Using this approach, withdrawal income is higher in the early stages of retirement than either the 4% rule or RMD strategy allow, while ensuring the portfolio lasts through retirement.

Based on market performance and other changes to the retiree's situation, the withdrawal amounts are dynamically adjusted based on regular reviews of a client's portfolio.

As the portfolio performance modeling shows the trade-off of this approach for clients is at the end of retirement, the portfolio balance will be lower than the 4% rule or RMD strategies.

The CANNEX Adaptive Withdrawal Strategy provides clients a customized approach to determining withdrawals that can be integrated into existing wealth planning platforms. It also highlights the benefits of guaranteed income by showing that retirement withdrawals from a client's retirement portfolio is more generous when the client relies on a foundation of guaranteed income.

As with any retirement strategy, the approach must be part of an ongoing client review process that reflects market performance or changes in the retiree's situation.

What About Taxes and RMD Withdrawals?

The CANNEX Adaptive Withdrawal Strategy generates a pre-tax amount irrespective of the RMD levels. It is possible to accommodate both of these considerations separately from the maximum safe withdrawal amount recommendation.

THREE TAKEAWAYS

#1 The Adaptive Withdrawal Strategy Enables Clients to Spend More Earlier in Retirement

The CANNEX Adaptive Withdrawal Strategy provides higher average income earlier in retirement than either the 4% rule or the RMD strategy. The fact is that most advisors (63%) believe that their clients will spend most during in the first decade of retirement. Other work segmenting retiree spending patterns supports the idea, demonstrating a clear need for strategies that allow higher spending levels at the beginning of retirement. The RMD strategy provides a lower level of income early in retirement and peaks in advanced old age, close to 90, which may not fit the spending needs of a retiree.

#2 Guaranteed Lifetime Income Affects Portfolio Withdrawals

The Adaptive Withdrawal Strategy adjusts portfolio sustainability based on the availability of guaranteed lifetime income. With no guaranteed income, the strategy reduces spending to assure lifelong availability of income from the portfolio. With guaranteed income in place, the strategy allows the retiree to spend more earlier in retirement and allows the portfolio to deplete in advanced old age.

Most retirees have social security, if not other guaranteed income sources, yet common withdrawal strategies don’t take this into account. Those who have spent a working life in “savings mode” may be reluctant to spend their nest eggs without guidance that they can do so safely.

#3 Simple Rules of Thumb May Shortchange

The fact is that no rule of thumb will provide guidance that both maintains income through retirement and allows retirees to spend more money earlier in retirement when they can actually enjoy it. Personalized advice on retirement spending has to be part of an ongoing review process through retirement and must be specific to the client’s:

1. Guaranteed retirement income;
2. Overall risk tolerance, including market volatility and individual longevity concerns;
3. Actual portfolio performance;
4. Circumstances as they change during retirement.

The CANNEX Adaptive Withdrawal Strategy takes into account all of these variables to better address this issue for retirees who would like to spend money early in retirement while maintaining income for many years.