# Reevaluating the 4% rule

## Knowing how much to withdraw from your retirement portfolio is critical to ensuring your assets can last.

For many retirees, a good rule of thumb has been to withdraw 4% a year while annually adjusting for inflation. This "4% rule" was developed by William Bengen in 1994 to help portfolios potentially generate income for 30 years or more.

**But a lot has changed since 1994 – and today this withdrawal strategy may not be as reliable due to:**

- longer life expectancies
- an uncertain economic environment
- the impact of fees on your retirement income

### LET'S CONSIDER A HYPOTHETICAL EXAMPLE:

**Meet Lisa. Lisa is 65 years old with $1 million in her portfolio, and two retirement spending goals:**

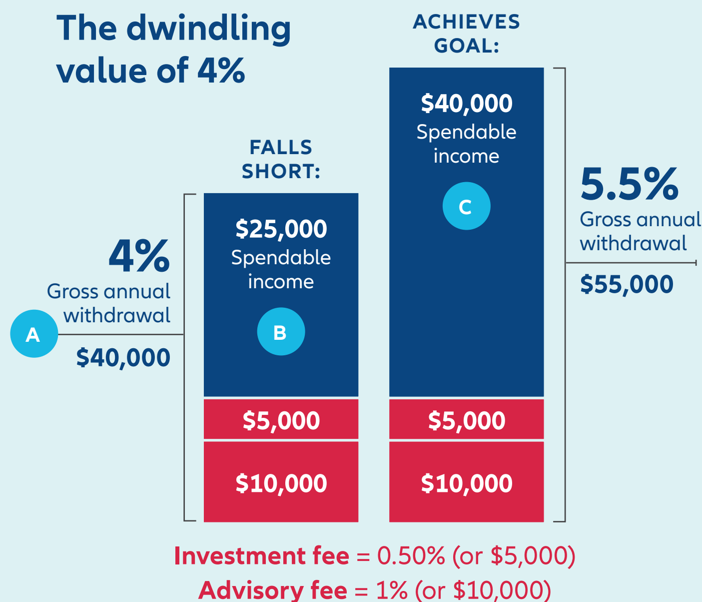
- $40,000 annual spendable income
- Enough savings to last 30+ years of retirement

**A** Let's see what happens when Lisa follows the 4% rule, withdrawing $40,000 annually from her $1 million portfolio.

**B** **After paying the advisory fee to her advisor and underlying investment fee,** she's left with just $25,000 (or 2.5% net annual withdrawal of spendable income) – which is not enough to meet her income need and may still be subject to income taxes.

**C** To achieve $40,000 annually of spendable income after fees, Lisa would instead need to withdraw a higher amount of $55,000 – or 5.5% – from her portfolio.

### The dwindling value of 4%




**Investment fee** = 0.50% (or $5,000)
**Advisory fee** = 1% (or $10,000)

These hypothetical charts are for illustrative purposes only. These values do not account for inflation.

**Unfortunately, the solution is not as simple as increasing withdrawals to 5.5%.**
**Learn more about the risk of a higher withdrawal on the next page. →**

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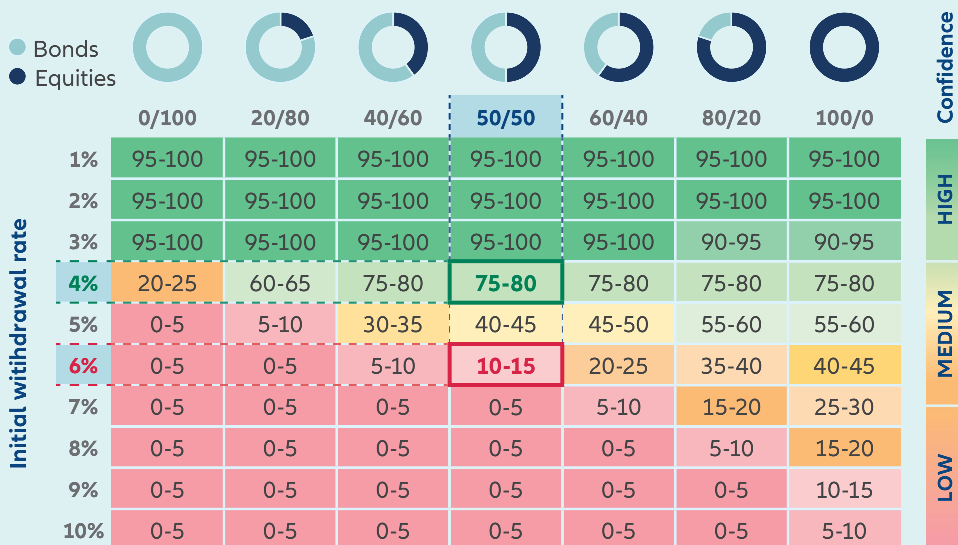
# Likelihood of success after 30 years

## Various initial withdrawal rates and asset allocations



| Initial withdrawal rate | 0/100 | 20/80 | 40/60 | 50/50 | 60/40 | 80/20 | 100/0 |
|---|---|---|---|---|---|---|---|
| 1% | 95-100 | 95-100 | 95-100 | 95-100 | 95-100 | 95-100 | 95-100 |
| 2% | 95-100 | 95-100 | 95-100 | 95-100 | 95-100 | 95-100 | 95-100 |
| 3% | 95-100 | 95-100 | 95-100 | 95-100 | 95-100 | 90-95 | 90-95 |
| 4% | 20-25 | 60-65 | 75-80 | 75-80 | 75-80 | 75-80 | 75-80 |
| 5% | 0-5 | 5-10 | 30-35 | 40-45 | 45-50 | 55-60 | 55-60 |
| 6% | 0-5 | 0-5 | 5-10 | 10-15 | 20-25 | 35-40 | 40-45 |
| 7% | 0-5 | 0-5 | 0-5 | 0-5 | 5-10 | 15-20 | 25-30 |
| 8% | 0-5 | 0-5 | 0-5 | 0-5 | 0-5 | 5-10 | 15-20 |
| 9% | 0-5 | 0-5 | 0-5 | 0-5 | 0-5 | 0-5 | 10-15 |
| 10% | 0-5 | 0-5 | 0-5 | 0-5 | 0-5 | 0-5 | 5-10 |



### Why shouldn't Lisa just take a higher withdrawal?

Lisa may be tempted to take a higher withdrawal, but this could risk depleting her assets too early. That's because **the higher her annual withdrawal, the less likely her portfolio will succeed** after a 30-year retirement. **For example:**

- **4% withdrawal** + **50/50 allocation** mix of equities and bonds = **75-80% probability of success.**
- **6% withdrawal** + **50/50 allocation** mix of equities and bonds = **10-15% probability of success.**

This chart is for illustrative purposes only and must not be used, or relied upon, to make investment decisions. Portfolios are described using equity/bond denotation (e.g., a 40/60 portfolio is 40% equities and 60% bonds). Hypothetical portfolios are composed of All Country World Equity and US Aggregate Bonds. J.P. Morgan's model is based on a blend of J.P. Morgan Asset Management's (JPMAM) proprietary Long-Term Capital Market Assumptions (first 10 years) and equilibrium returns (20 years). The resulting projections include only the benchmark return associated with the portfolio and do not include alpha from the underlying product strategies within each asset class. The yearly withdrawal amount (1% to 10%) is set as a fixed percentage of the initial amount of $1,000,000 and is then inflation adjusted over the period (2.0%). The percentile outcomes represent the percentage of simulated results with an account balance greater than $0 after 30 years (e.g., "95-100" means that 95-100% of simulations had account balances greater than $0 after 30 years). Overlap percentiles are included in the lower bracket (e.g., 80 is included in "75-80"; 85 is included in "80-85"). Allocations, assumptions and expected returns are not meant to represent JPMAM performance or the performance of any other type of investment or financial vehicle. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

**IMPORTANT:** The information regarding the likelihood of various investment outcomes is hypothetical in nature, does not reflect actual investment results, and is not a guarantee of future results. The simulations are based on a number of assumptions. There can be no assurance that the results shown will be achieved or sustained. The chart presents only a range of possible outcomes. Results may vary, and such results may be better or worse than the simulated scenarios. Clients should be aware that the potential for loss or gain may be greater than demonstrated in the simulations. An asset allocation strategy does not ensure a profit or protect against a loss.

### Help take some risk out of your retirement by complementing a portion of your portfolio with an annuity.[1]

An annuity can help meet your long-term retirement goals by providing tax deferred accumulation potential and a death benefit for beneficiaries during the accumulation phase.

Additionally, annuities are designed to generate a **guaranteed stream of income in retirement** – *no matter how long you live or what happens in the market.*[2] Annuities provide income in the form of annuity payments. Some annuities may also provide income payments through an income benefit rider that is either built in to the contract or optional for an additional rider fee. This level of certainty can help improve your overall retirement income strategy by **reducing the risk of running out of money in retirement.**

→ **TALK TO YOUR FINANCIAL PROFESSIONAL** about potential strategies, such as an annuity, to help you manage retirement risks.

[1] Please keep in mind that producers must be currently registered with a broker/dealer to provide advice about, or recommend the liquidation of funds held in securities products, including those within an IRA or other retirement plan, for the purchase of an annuity.

[2] As long as you follow the terms of your contract.

You should carefully consider the features, benefits, limitations, risks, and fees that may be associated with a fixed index or index variable annuity, as well as the expenses, investment risks, and objectives of the underlying variable options in an index variable annuity. Ask your financial professional if an annuity is appropriate for you based on your financial situation and objectives.

Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. Variable annuity guarantees do not apply to the performance of the variable subaccounts, which will fluctuate with market conditions.

As with any investment vehicle, index variable annuities are subject to risk – including possible loss of principal. Investment returns and principal will fluctuate with market conditions so that contract values, upon distribution, may be worth more or less than the original cost.

Withdrawals will reduce the contract value and the value of any potential protection benefits. Withdrawals taken within the contract withdrawal/surrender charge schedule will be subject to a withdrawal charge. All withdrawals are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal additional tax.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