Geier Financial Group

Keeping you ahead of the game!

Financial planning department

OCTOBER ISSUE

This month we are shining the spotlight on our Financial planning department currently led by CFP, Kelly Wright. Kelly joined our firm about a year ago and has been an integral part of meeting our client's financial needs. Prior to his tenure at GFG, he served as the leading regional financial planning specialist with BB&T bank's Wealth Management Division. Kelly also has served as a Mechanical Engineer in the defense industry, which has guided him in using a problem-solving approach to financial planning.

The financial planning department offers but is not limited to the following services:

- Cash flow and control
- Budgeting
- Financial decisions
- Investment planning
- Retirement planning
- Estate planning
- Tax planning
- Purchase/sale of a business
- Charitable donations
- Financial decisions
- College funding

Please give us a call should you be interested in any of these services. We are always here for you!

We have attached an article we find exceptional regarding retirement withdrawals, and wanted to share it with you.

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How Much Annual Income Can Your Retirement Portfolio Provide?

Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio. The annual percentage that you take out of your portfolio, whether from returns or the principal itself, is known as your withdrawal rate. Figuring out an appropriate initial withdrawal rate is a key issue in retirement planning and presents many challenges.

Why is your withdrawal rate important?

Take out too much too soon, and you might run out of money in your later years. Take out too little, and you might not enjoy your retirement years as much as you could. Your withdrawal rate is especially important in the early years of your retirement; how your portfolio is structured then and how much you take out can have a significant impact on how long your savings will last.

Gains in life expectancy have been dramatic. According to the National Center for Health Statistics, people today can expect to live more than 30 years longer than they did a century ago. Individuals who reached age 65 in 1950 could anticipate living an average of 14 years more, to age 79; now a 65-year-old might expect to live for roughly an additional 19 years. Assuming rising inflation, your projected annual income in retirement will need to factor in those cost-of-living increases. That means you'll need to think carefully about how to structure your portfolio to provide an appropriate withdrawal rate, especially in the early years of retirement.

Current Life Expectancy Estimates		
	Men	**Women**
At birth	**75.2**	**80.4**
At age 65	**82.2**	**85**

Source: National Vital Statistics Report, Volume 56, No. 10

Conventional wisdom

So what withdrawal rate should you expect from your retirement savings? The answer: it all depends. A seminal study on withdrawal rates for tax-deferred retirement accounts (William P. Bengen, "Determining Withdrawal Rates Using Historical Data," *Journal of Financial Planning*, October 1994) looked at the annual performance of hypothetical portfolios that are continually rebalanced to achieve a 50-50 mix of large-cap (S&P 500 Index) common stocks and intermediate-term Treasury notes. The study took into account the potential impact of major financial events such as the early Depression years, the stock decline of 1937-1941, and the 1973-1974 recession. It found that a withdrawal rate of slightly more than 4% would have provided inflation-adjusted income for at least 30 years. More recently, Bengen used similar assumptions to show that a higher initial withdrawal rate--closer to 5%--might be possible during the early, active years of retirement if withdrawals in later years grow more slowly than inflation.

Other recent studies have shown that broader portfolio diversification and rebalancing strategies also can have a significant impact on initial withdrawal rates. In an October 2004 study ("Decision Rules and Portfolio Management for Retirees: Is the 'Safe' Initial Withdrawal Rate Too Safe?," *Journal of Financial Planning*), Jonathan Guyton found that adding asset classes such as international stocks and real estate helped increase portfolio longevity (although these may entail special risks). Another strategy that Guyton used in modeling initial withdrawal rates was to freeze the withdrawal amount during years of poor portfolio performance. By applying so-called decision rules that take into account portfolio performance from year to year, Guyton found it was possible to have "safe" initial withdrawal rates above 5%.

A still more flexible approach to withdrawal rates builds on Guyton's methodology ("Using Decision Rules to

More ways to help stretch your savings

- *Don't overspend early in your retirement*
- *Plan IRA distributions so you can preserve tax-deferred growth as long as possible*
- *Postpone taking Social Security benefits to increase payments*
- *Adjust your asset allocation*
- *Adjust your annual budget during years when returns are low*