Consilium

Rules of Thumb and Decumulation

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Optimal Withdrawal Strategy for Retirement Income Portfolios

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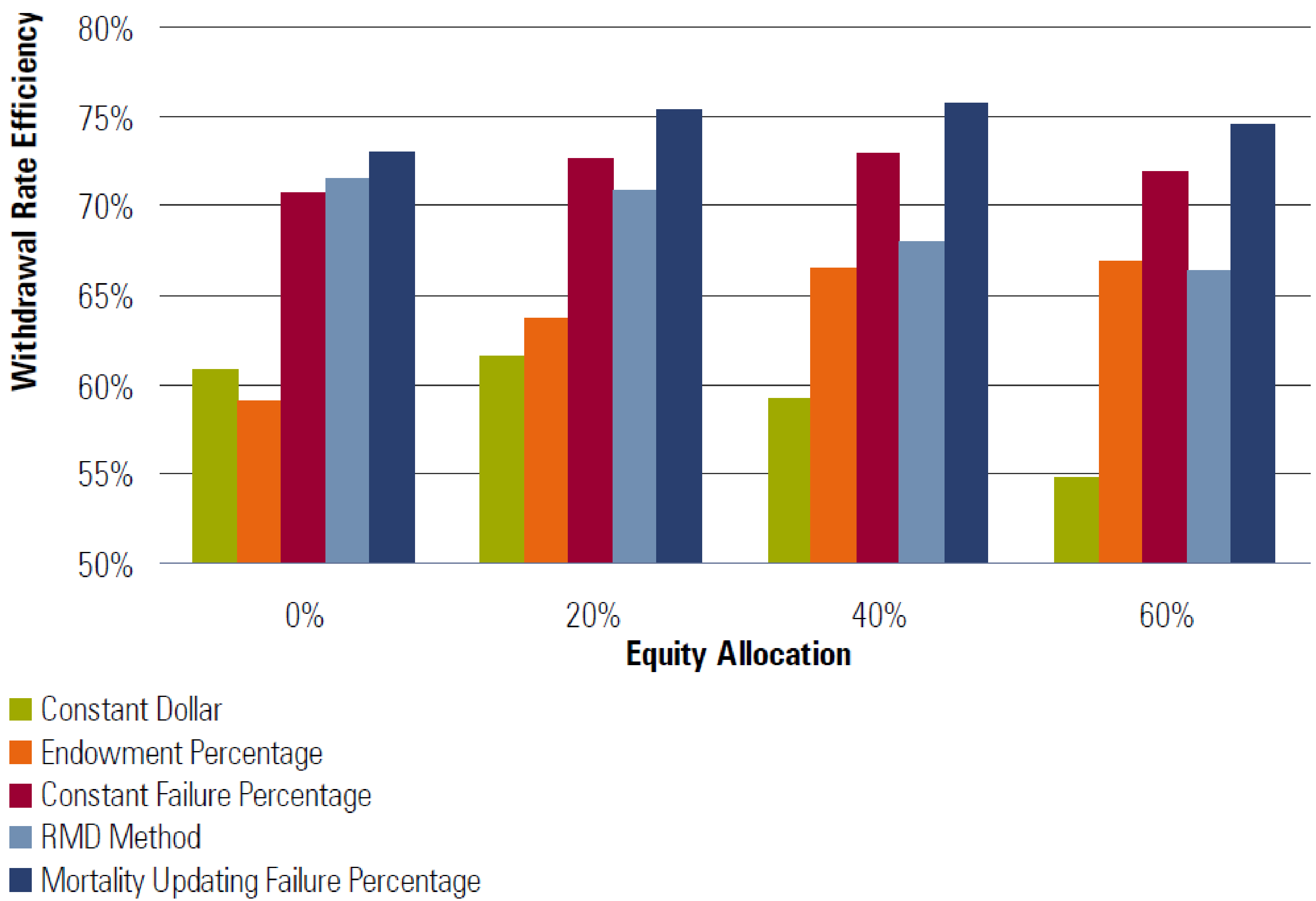
Figure 3: Comparison of Five Withdrawal Strategies



Source: Authors' calculations

How Often *Any* Downward Spending Adjustments Are Triggered In Dynamic Financial Plans

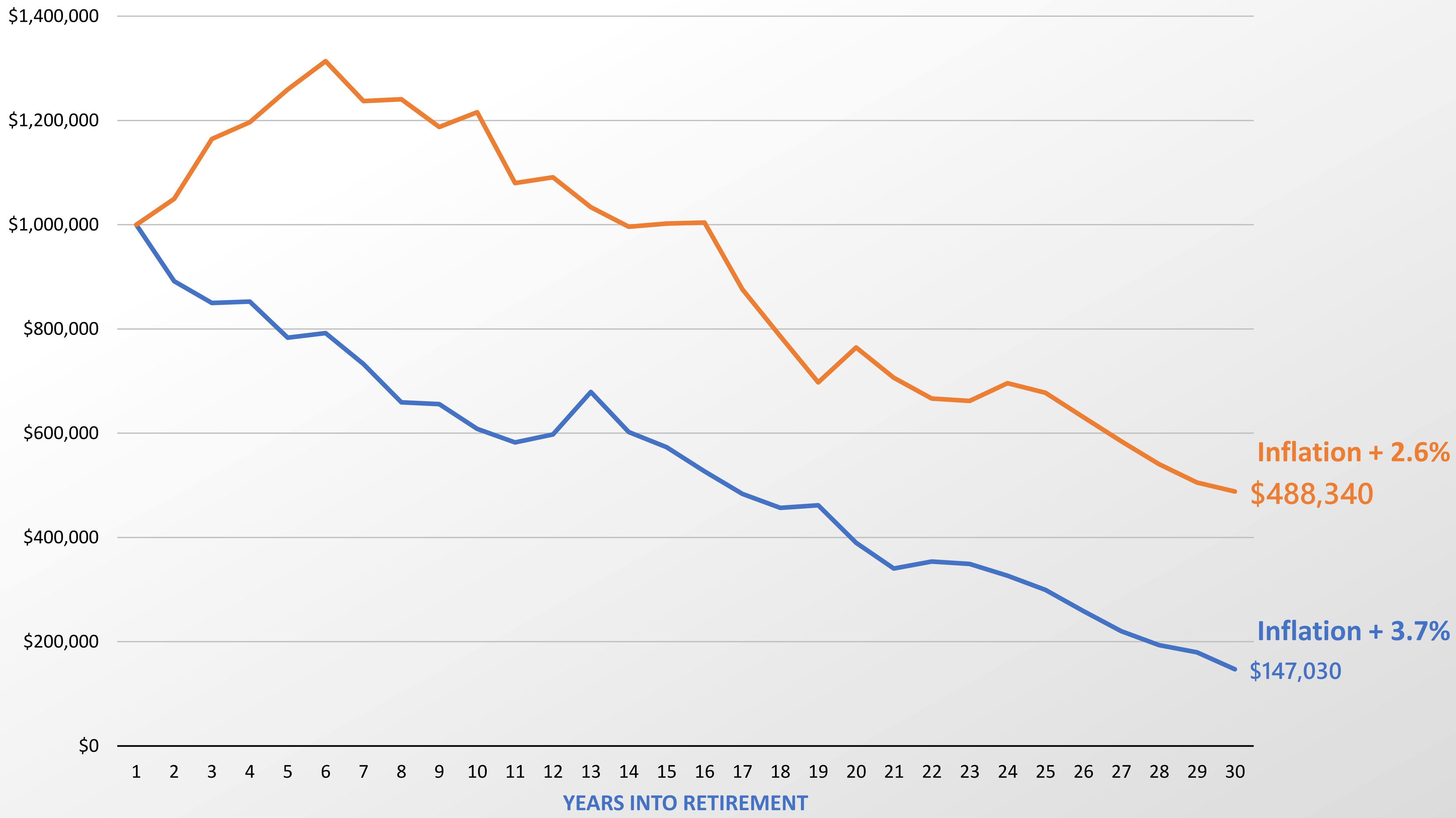
Constant Probability of Success	Frequency of Adjustments
95%	
70%	
50%	
20%	

At a constant 70% probability of success – roughly the minimum that advisors have reported in prior studies being comfortable using – we still see very high adjustment rates at 99.57% of the time.

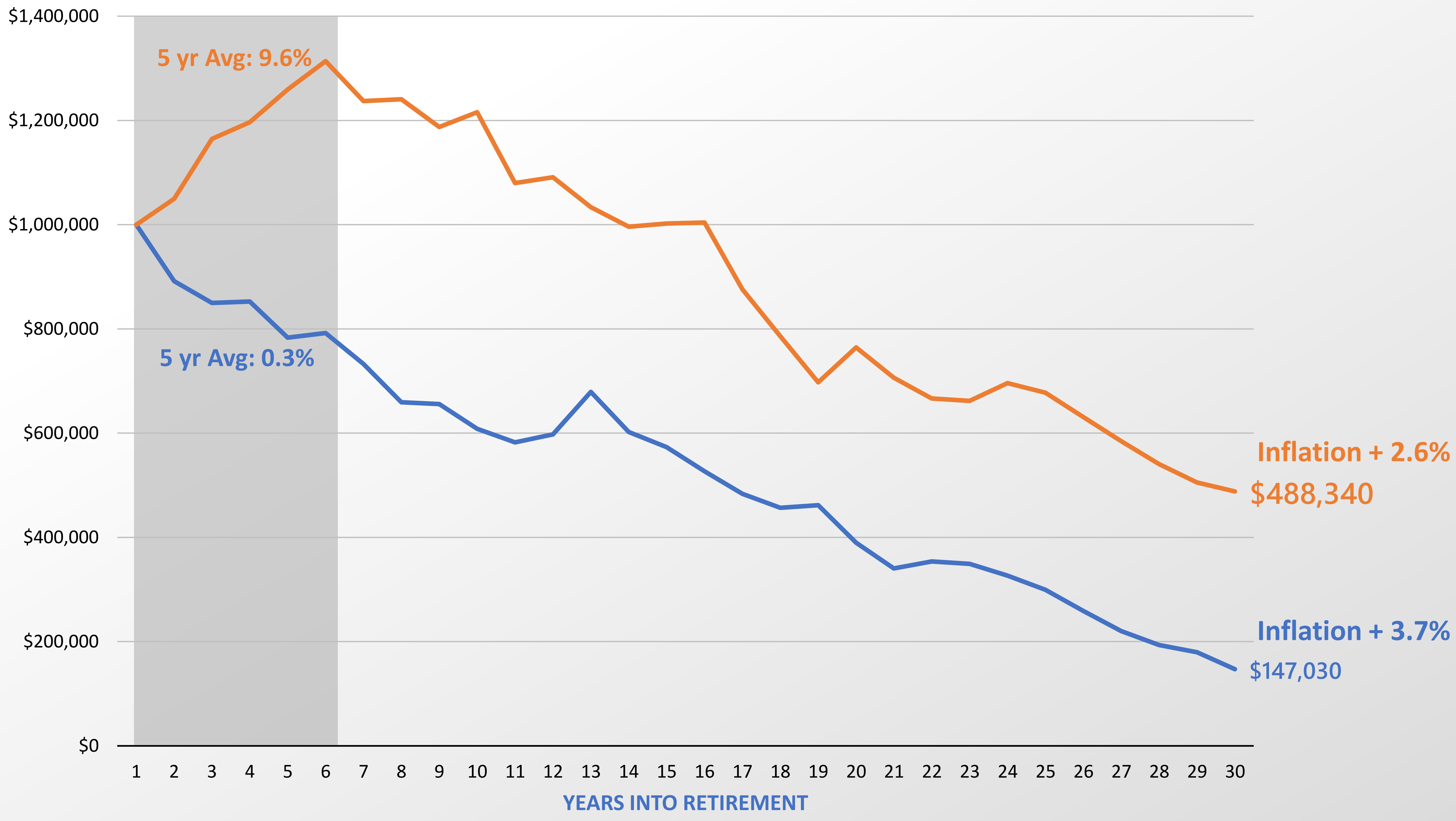
In other words, despite only 30% of scenarios ultimately running out of money if no adjustments were made, we still see that proactive adjustments were called for in 99.57% of historical scenarios when planning to a constant 70% probability of success!

And this is important, because if an advisor is trying to set expectations by telling their client that the client only has a 30% probability of needing to adjust their spending – when the reality is that 99.57% of the time, historically, they would have had to adjust spending when looking forward proactively.

Source: https://www.kitces.com/blog/monte-carlo-guardrails-probability-of-adjustment-success-client-communication-dynamic-retirement-spending/



$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
YEARS INTO RETIREMENT
Inflation + 2.6%
$488,340
Inflation + 3.7%
$147,030



$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
5 yr Avg: 9.6%
5 yr Avg: 0.3%
Inflation + 2.6%
$488,340
Inflation + 3.7%
$147,030
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
YEARS INTO RETIREMENT

Withdrawal Policy Statement

Keeping you on track

We will periodically check whether your plan remains on track.

What does it mean to be on track?

It means that we are using planning assumptions like portfolio choice and spending and saving amounts to strike the balance between enjoying your wealth, and ensuring you do not outlive your wealth. In this plan we have conservatively built in a margin of safety, which we will adjust as you age. To gauge this margin of safety we use a target on a scale of 0 to 100. If the target is too high, you will likely leave a large estate - you have told us this is not what you want. If the target is too low, you may outlive your money. Your current target number is 67 out of 100. As you age, we'll increase this target slowly.

When we perform a 'keeping you on track' check, we may find that:

- You have contributed more than you expect to your portfolio
- You have spent less than you expect from your portfolio
- Your portfolio returns have been higher than expected

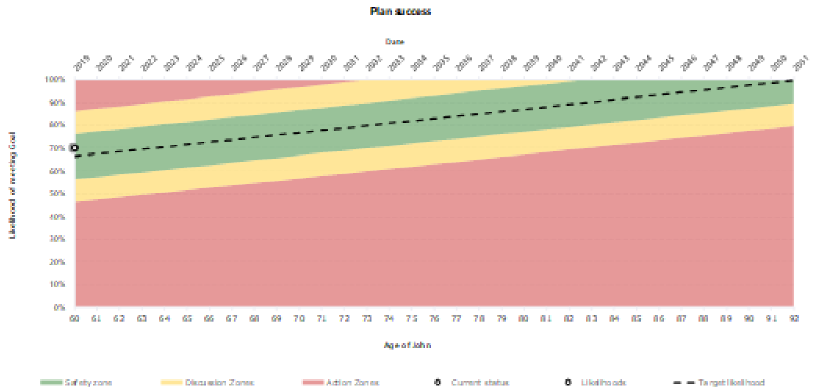
In these cases, we will likely be above target, so the planning emphasis will be on how we can improve your lifestyle or reduce the risk exposure in your portfolio to compensate.

However, we may find that:

- You have contributed less than you expect to your portfolio
- You have spent more than you expect from your portfolio
- Your portfolio returns have been lower than expected

In these cases, we will likely be below target, so the planning emphasis will be on how we can improve your portfolio's longevity to compensate.

The chart below shows that the target will slowly increase over time, becoming more and more conservative. The chart also shows areas on either side of the target which indicate when taking some kind of action is recommended.



A good strategy allows for things going better or worse than planned. Below we suggest some guidelines for the actions we'll take in the case of better or worse than expected outcomes, so we can help you stay on target. It's important to read these guidelines and agree to them in principle.

Value relative to target	Guidelines
+ 20 above target at review	Take action to increase high priority items. For you, this might mean planning to retire sooner, increasing lifestyle spending or increasing planned generosity.
10 to 20 above target at review	Consider increasing high priority items.
10 above to 10 below target at review	No action required.
10 to 20 below target at review	Consider reducing low priority items. For you, this might mean allocating from your generosity portfolio to your lifestyle spending portfolio, increasing your lifestyle spending portfolio's allocation to shares, or increasing how much you are saving.
- 20 below target at review	Take action to reduce low priority items.

Value relative to target	Guidelines
+ 20 above target at review	Take action to increase high priority items. For you, this might mean planning to retire sooner, increasing lifestyle spending or increasing planned generosity.
10 to 20 above target at review	Consider increasing high priority items.
10 above to 10 below target at review	No action required.
10 to 20 below target at review	Consider reducing low priority items. For you, this might mean allocating from your generosity portfolio to your lifestyle spending portfolio, increasing your lifestyle spending portfolio's allocation to shares, or increasing how much you are saving.
- 20 below target at review	Take action to reduce low priority items.