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ASK ENCORE

Why the 4% Retirement Rule Is Just a Starting Point

Some experts argue for withdrawal strategies tied to changing conditions

The 4% rule is still a good starting point when thinking about tapping your savings. But that's all it should be. PHOTO: ISTOCKPHOTO/GETTY IMAGES

By Glenn Ruffenach

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Is 4% still the going number for the amount considered "safe" to withdraw from savings in retirement? And is there a "magic" number that should make me feel comfortable about retiring? I'm 64½.

This question gives me a chance to highlight several resources about tapping a nest egg, one of the most important and difficult tasks that retirees face.

ASK A QUESTION

Have a question about planning for and living in retirement? Email askencore@wsj.com

Based on pioneering research in the early 1990s by William Bengen, then a financial planner in California, the so-called 4% rule

states that retirees can pull about 4% from their nest egg in the first year of retirement (a figure Mr. Bengen eventually set at 4.5%), and then that dollar amount plus more to account for inflation every year after that, with a high probability that their savings will last 30 years.

But Mr. Bengen, now retired, never has claimed that his findings are right for every retiree. He started with a specific set of assumptions: a retirement lasting (again) 30 years, with savings in a tax-deferred account, and nothing left for heirs. Change just one of those parameters, and your "safe" withdrawal rate may differ.

So, to answer your first question, the 4% rule ("guideline" would be a much better word) is still a good starting point when thinking about tapping your savings.

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But that's all it should be—a starting point. There are many techniques to help you pull funds from a nest egg, most of them tied to the idea that withdrawal rates should be "dynamic," or change each year in response to changes in the markets. (More on this in a moment.)

As for a "magic" number, it varies by person. Depending on your circumstances (the size of your savings, investment fees, other sources of income, your life expectancy, spending patterns, etc.), you might be comfortable with a withdrawal rate of, say, 4.5%—or something closer to 3%. Of course, the lower your withdrawal rate, the safer. William Bernstein, the author of several books about investing, puts it this way: "Two percent is bulletproof, 3% is probably safe, 4% is pushing it, and at 5%, you're eating Alpo in your old age."

Now, some resources:

• **Options and mechanics.** If you plan to tap your savings on your own, two resources, in particular, can be a big help. Karsten Jeske, a chartered financial analyst and author of the Early Retirement Now blog (earlyretirementnow.com) has written a 28-part (and counting) series about safe withdrawal rates. In short, Mr. Jeske is no fan of the 4% rule; rather, his articles look closely at, and make a compelling argument for, withdrawal strategies that are tied to "changing economic and financial conditions."

(Spoiler alert: He likes "CAPE-based" rules, based on economist Robert Shiller 's "cyclically adjusted price-to-earnings" ratio. Don't worry: It isn't as intimidating as it sounds.)

Similarly, check out “Living Off Your Money” by Michael H. McClung. This valuable book, although somewhat technical, focuses on “systemic withdrawals”—how to generate sustainable income in retirement. To that end, Mr. McClung patiently examines a number of strategies for investing your savings, pinpointing a withdrawal rate, and pulling funds from your nest egg. His website (livingoffyourmoney.com) includes a companion spreadsheet.

• **Guaranteed income.** If you have a high level of guaranteed income in retirement—Social Security, a pension, an annuity—you probably can pull more from your savings each year than people with smaller amounts of such income. That’s the point made by David Blanchett at researcher Morningstar Inc. and Mike Piper, who writes the Oblivious Investor blog. See Mr. Blanchett’s thoughts about this in the Journal of Financial Planning (go to onefpa.org and search for: Impact of Guaranteed Income) and Mr. Piper’s take on safe withdrawal rates at obliviousinvestor.com. (Search for: safe withdrawal rates.)

• **Numbers vs. lifestyle.** For the moment, let’s put aside numbers and consider how your lifestyle might affect your withdrawal rate.

Darrow Kirkpatrick, who writes the Can I Retire Yet? blog (caniretireyet.com), has come up with a Retirement Flexibility Scale that uses non-numeric factors to help would-be retirees determine whether their particular withdrawal rate should be closer to 3% or 5%. Some examples: Could you return to work in your original career in the first four years of retirement, if necessary? Do you have the skills to start a business? Could you downsize to reduce housing expenses? There are 12 questions in all.

Quirky? A bit. But as with most of Mr. Kirkpatrick’s articles, well worth your time. (At his website, search for: Retirement Flexibility Scale.)

• **Back to Bengen.** Finally, William Bengen, the aforementioned father of the 4% rule, spoke earlier this year with the American Association of Individual Investors. In a lengthy interview, he explained how his withdrawal method works and why he still has a great deal of faith in his research. The biggest threat to his recommendations? A sustained period of high inflation, he says. (And *not* a lengthy period of low returns, as some critics of Mr. Bengen’s work have suggested.) Go to aaii.com/journal and search for: Bengen.

EDITOR’S NOTE

The Wall Street Journal’s Encore report runs periodic columns from people who have retired abroad and want to write about their experience. If you’re interested in contributing, email reports@wsj.com.

Of course, all of the above raises the question: Should you choose a withdrawal rate, and how to pull the necessary funds from savings, on your own? Again, this is one of the most important financial steps you will take in retirement—and if you err early in the process, the consequences could be ruinous. This is a moment when a good financial adviser can be invaluable.

And speaking of financial advisers...

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I get calls from my financial adviser when the market fluctuates, and he proposes moving things around (at no fee). Your thoughts? How much "moving" is good, or bad, for me?

Good questions. First, your adviser shouldn't necessarily be "moving things around" when markets "fluctuate." Markets *always* are moving higher and lower, and a good financial plan anticipates this. Indeed, the whole point of having a plan that allows you to sleep comfortably at night is *not* to tinker with it simply because markets happen to be fluctuating.

In short, a good financial adviser is going to be trading in your account as seldom as possible—ideally, once or twice a year, at most, notes Jason Zweig, who writes The Wall Street Journal's The Intelligent Investor column.

Second, I strongly suspect that there is a fee, of some sort, when your adviser "moves things around." The worst example of this is "churning," the constant selling and buying of investments to generate commissions. Again, your adviser might be telling you that there are "no fees" when he or she sells and buys. But I would take that with a grain of salt and look closely at how fees work with your holdings.

Mr. Ruffenach is a former reporter and editor for The Wall Street Journal. His column examines financial issues for those thinking about, planning and living their retirement. Send questions and comments to askencore@wsj.com.

Corrections & Amplifications

The "4% rule" states that retirees can pull about 4% from their nest egg in the first year of retirement, and then that dollar amount plus more to account for inflation every year after that. An earlier version of this article implied that after the first year, the rule continues to be based on 4% of each year's amount. (Sept. 13, 2018)

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