Client Articles

Near-Retirees Overestimating Withdrawal Needs

Description

Many pre-retirees have unrealistic ideas about how much they will be able to withdraw for living expenses after entering retirement.

As retirees shift their focus from accumulating assets to creating an ongoing stream of income, many are not prepared to start planning from a new vantage point. This lack of perspective may explain why, according to a recent survey, many retirees anticipate making annual withdrawals that are too large, and run the risk of outliving their assets.

How Much to Withdraw

Historically, financial advisors have recommended that retirees limit annual withdrawals to a maximum of 3% to 5% of assets, adjusted for inflation, to limit the chances of running out of money. Yet a recent survey indicated the following:[1]

- Nearly one-third of respondents believed they could withdraw between 7% and 10% annually.
- Just over 10% anticipated that they could withdraw between 11% and 15%.

Many respondents also underestimated the percentage of their preretirement income they would need annually to pay for living expenses. Only 45% of respondents understood that retirees typically need between 80% and 90% of preretirement income to maintain their preretirement standard of living.

Factors Affecting Retirement Income

If your retirement assets are running short, a variety of factors are likely to influence how much you will need during your later years:

- **Your retirement age.** Collecting Social Security at your earliest opportunity, which for most people is age 62, results in a permanent reduction of between 20% and 30% in the amount of your monthly benefit.
- **Medical expenses**. It's no secret that Medicare is experiencing financial stress and employer-sponsored health care plans for retirees are less generous than they formerly were. The Employee Benefit Research Institute has estimated that a couple retiring at age 65 with median drug expenses would need to accumulate $271,000 to ensure a 90% probability that they will have enough to pay for medical care. This amount does not include the cost of long-term care, which would make the estimate even higher.
- **Housing**. A large mortgage or other indebtedness limits financial flexibility. If you live in spacious quarters, consider how you will be able to finance mortgage payments, taxes, maintenance, utilities, condo fees, and other expenses.
- **Discretionary costs of living.** It can be difficult to control expenses for necessities such as utilities and health care. But variable costs, such as restaurant meals and vacations, are a different matter. Review how you may be able to trim variable costs before you retire without leading a Spartan lifestyle. Getting used to a more efficient mode of living may help you in your transition to retirement.

Source/Disclaimer:

[1] Source: MetLife, Met Life Mature Market Survey, October 2011.

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