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Retirement Distribution Pitfalls: Variability in Withdrawals

Accumulation is a key facet of reaching your retirement goals. However, we tend to see far less about portfolio drawdown, or decumulation—the logistics of managing a portfolio from which you're simultaneously extracting living expenses during retirement. This can be even more complicated than accumulating assets.

Pitfall: One of the big mistakes of retirement distribution can be not allowing for some variability in your withdrawals, based on need. Many retirees use the 4% rule, which holds that you withdraw a specific dollar amount in year 1 of retirement, then adjust that dollar amount upward each year to account for inflation. Even though this rule can provide a good starting point, it's unrealistic to expect that you'll stick with a fixed withdrawal amount every year. You may have years when you need to spend more, such as for a new car, new roof, child's wedding, or a special vacation, and years when you can get by with less.

Workaround: Be sure to pad anticipated expenses a bit to account for extras and unanticipated expenditures. Some retirees, for example, forecast when they would need to replace cars, take big trips, and repair roofs. Those padded expenses should be used when determining whether a withdrawal rate is sustainable. Alternatively, retirees could manage their distributions with the expectations that they will in fact not be static from year to year—for example, paying for unanticipated expenses on an as-needed basis with the expectation that they'll have to tighten their belt in subsequent years.

This is for informational purposes only and should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances. This article contributed by Christine Benz, Director of Personal Finance with Morningstar.



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