Retirement income

Starting smart with your withdrawals

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You've spent years preparing for retirement. As you think about this phase of your life, it's important to determine how much money you can spend. Your withdrawal rate is one of the biggest factors affecting how long your money lasts. In general, if you retire at age 65 and increase the amount you withdraw each year to account for inflation, we believe an initial withdrawal rate of 4% may be a good starting point. However, a variety of factors could cause your rate to be higher or lower, and it will likely need to be adjusted over time. Because there isn't one rate that works for everyone, your withdrawal rate should be personalized for your situation with the help of a financial advisor.

Three main withdrawal considerations

Market performance, the length of time you spend in retirement and inflation all influence how much you can withdraw. While these factors can be unpredictable, you can control how you incorporate them into your strategy.

1. Market performance: Keep realistic expectations

While we all hope for strong market performance, unrealistic expectations could cause you to withdraw more than necessary. If your portfolio performs better than expected, you may be tempted to increase your withdrawals. But we still recommend a more modest withdrawal rate, especially in the early years of retirement.

You rarely get the average — If your portfolio of stocks and bonds has averaged a 6% return, you might assume you can safely withdraw 6% and never run out of money. However, the market rarely has an average year. Some years it's up, some down, and these fluctuations affect how much you can withdraw.

Sequence matters — The sequence of returns or when these up and down years occur is important in retirement. In the table on Page 2, both scenarios have the same average return, only the sequences are reversed. In general, the higher the initial withdrawal rate, the larger the effect of the sequence of returns.

As you begin retirement, start with conservative withdrawals, in part because the good or bad years are not predictable.

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Sequence of returns and withdrawal rates

Beginning portfolio value: $500,000										Ending portfolio value	
	Annual portfolio returns by year								Average return	4% initial withdrawal rate	6% initial withdrawal rate
	1	2	3	4	5	6	7	8			
Scenario 1	25%	16%	8%	15%	0%	-8%	4%	-12%	6%	$590,000	$500,000
Scenario 2	-12%	4%	-8%	0%	15%	8%	16%	25%	6%	$490,000	$355,000

Source: Edward Jones estimates. This hypothetical example is for illustrative purposes only and does not reflect the performance of a specific investment. Example assumes withdrawals increased by 3% each year for inflation. "Ending Portfolio Value" rounded to nearest $5,000.

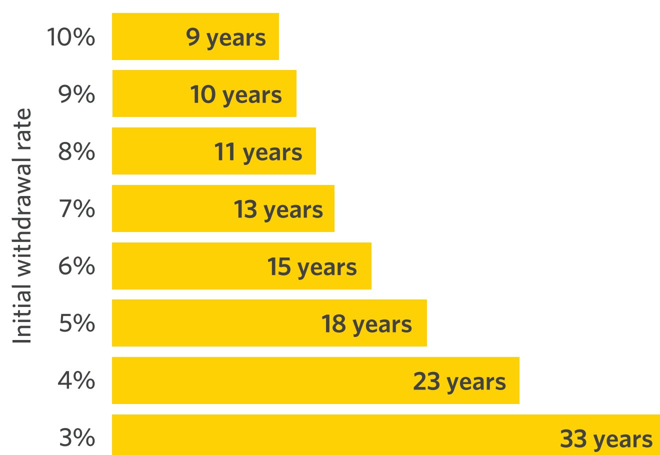
2. Life expectancy: Retirement may last longer than you think

The length of your retirement is also a major factor in determining your withdrawal rate. Consider this: The average life expectancy for a 65-year-old today is approximately 85. But just like the markets, don't plan on averages. If the average is 85, this implies about half of all retiring 65-year-olds will spend more than 20 years in retirement. In fact, a 65-year-old couple has about a 60% chance at least one spouse will live past age 90 and about a 30% chance one spouse will reach age 95.[1]

Since you could spend 25 years or longer in retirement, your portfolio must be able to provide for your needs today as well as decades from now. In general, the lower your initial withdrawal rate, the longer your money should last. So, the younger you are or the longer you expect to live in retirement, the lower your withdrawal rate should be.

The chart on the right shows the number of years your money could last, with at least a 90% probability of success.

Your withdrawal rate is important



Source: Edward Jones estimates. Results using a Monte Carlo simulation of a 50% fixed income/50% stocks portfolio, rebalanced annually. The portfolio includes cash (1%), U.S. investment-grade bonds (39%), U.S. high-yield bonds (10%), U.S. large cap stocks (33%), and international large cap stocks (17%). Expected returns based on long-term capital market expectations for cash of 2.9%, U.S. bonds of 3.6% to 6.0%, U.S. large cap stocks of 6.8%, and international large cap stocks of 7.6%. We also assume an annual fee of 1%. This hypothetical example is for illustrative purposes only and does not reflect the performance of a specific investment.

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3. Inflation: It doesn't retire

We recommend starting with a withdrawal rate that gives you room to potentially raise it as your expenses rise with inflation over time. Consider this: Things you buy today will cost about twice as much in 25 years, assuming a 3% annual inflation rate. If you currently need $40,000 a year for expenses, you could need more than $80,000 in 25 years to maintain your standard of living. While you may be able to earn 2% to 5% on fixed-income investments over the long term, putting all your money in fixed income provides little growth potential to help meet rising expenses. In our view, stocks and bonds are both necessary for a successful retirement strategy.

In addition, your actual expenses will likely vary over time; some expenses such as travel could go down, whereas others like health care may rise. Also, different expenses will likely experience different inflation rates. As a result, your strategy should be personalized based on your specific expenses. However, by starting modestly, you can increase the likelihood you'll be able to take higher withdrawals years from now when your expenses may be higher.

Effects of inflation

	1999	2024	2049 (est.)
New car	$19,500	$27,500	$40,000
Tank of gas (17 gal)	$20	$50	$190
Monthly groceries	$400	$750	$1,400
Annual health care	$2,500	$8,500	$25,000

Source: Bureau of Labor Statistics, Kelley Blue Book and U.S. Department of Agriculture. The inflation rate used to calculate 2049 prices is the average annual inflation during 1999–2024: Car = 1.5%, Gas = 5%, Groceries = 2.5%, and Health care = 4.5%. Car: MSRP for automatic transmission Toyota Camry, Gas: National average for unleaded regular gasoline, and Groceries: Family of two with moderate cost plan. Health care: 1997, 2022 and 2047 data. Median household expenditure for married couple. Values rounded to the nearest $10, $50 and $500, as appropriate.

What's my withdrawal rate?

Incorporating the effects of market performance, potential length of retirement and inflation, the following table highlights our recommendations for initial withdrawal rates, based on age. We consider these to be initial rates, as we assume annual increases in your withdrawals to account for inflation. Remember, one rate will not apply to everyone — talk with your financial advisor about what makes sense for your situation.

Rising withdrawal guidance

Starting age for withdrawals	More conservative	Less conservative
Early 60s	3.0%	3.5%
Late 60s	3.5%	4.0%
Early 70s	4.0%	5.0%
Late 70s	5.0%	7.0%
80s+	6.0%	8.0%

Withdrawal rate guidance is based on estimates of the probability of different portfolio allocations lasting to age 92. Assumes withdrawals increase by 3% annually for inflation. We assume the portfolios have a mix of cash, fixed income and equities. Expected returns based on long-term capital market expectations for cash of 2.9%, fixed income of 3.6% to 6.1%, U.S. stocks of 6.8% to 8.3%, and international stocks of 7.6% to 9.0%. We also assume an annual fee of 1%. Withdrawal rates can include the withdrawal of principal. If preservation of principal is a high priority, you may need a lower withdrawal rate. In general, the higher your withdrawal rate, the greater the risk your money may not last throughout your time horizon.

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What rate makes sense for me?

While no one withdrawal rate works for everyone, where you start within the table may be influenced by the following:

Spending flexibility: The more your withdrawals are closer to the "Less conservative" column, the more flexible you may need to be with your withdrawals. This would include being able to forgo annual raises or potentially reduce your withdrawals, particularly after years in which the markets decline.

Portfolio reliance rate: The more you rely on your portfolio for your income needs, the more you may need to be flexible and have a conservative withdrawal rate.

Age/longevity: The younger you are and/or the longer you expect to live, the more conservative your initial withdrawal rate should be.

Risk tolerance: If you have a lower tolerance for risk, you may need a more conservative withdrawal rate.

Asset allocation: Our guidance assumes a diversified portfolio of stocks and bonds.[2] If your portfolio is overly aggressive in stocks, or if you own mostly fixed-income investments and cash, the guidance does not apply. In our view, being too aggressive or conservative can be risky when determining how much you can withdraw.

Legacy: The more you want to leave to your heirs, the more conservative your withdrawal rate should be.

Calculating your withdrawal rate

Your withdrawal rate plays such a crucial role — that's why we recommend you sit down with your financial advisor to analyze how much income you need during retirement. This will help you understand the role your portfolio will play in providing for your income needs.

Estimate your retirement expenses. You'll first need to determine how much you need. Categorize expenses into necessary (mortgage, health care, groceries, etc.) and discretionary (travel, dining out, etc.). This can provide some insight on the potential flexibility of your budget. Don't forget to include taxes.

Outline outside sources of income. Include items such as Social Security and (if applicable) your pension. Also include employment income if you expect to continue working after retirement.

Determine income needs from your portfolio. The difference between the amount you need and your outside income sources will have to come from your portfolio. This amount should include potential taxes, as you may need to withdraw more from your portfolio on a pretax basis to generate your desired after-tax income. Divide this amount by your retirement assets to determine your withdrawal rate. You also may want to discuss this with your tax advisor.

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How much do I need to save?

The rule of 25

As a quick guide, take the pretax amount you will need to withdraw from your portfolio in the first year of retirement and multiply this by 25. This would be our estimate for a 65-year-old retiree withdrawing 4% in the first year and increasing the withdrawals each year for inflation.

A starting point

It's important to note that these withdrawal rates are not set in stone. For example, while we assume an annual increase in your spending to account for inflation, your actual expenses and spending could fluctuate over time. And though we've acknowledged that the market may fluctuate over time, you may still need to make adjustments should markets underperform. This is why it's important to review your performance and expenses each year with your financial advisor. To help make your money last during retirement, we recommend you:

Be flexible when taking withdrawals.

Your income needs may rise and fall from year to year. So, be flexible. Don't take out the full withdrawal if you don't need it. If you feel your current withdrawals are providing for your income needs, don't automatically increase your withdrawals each year. Additionally, while we try to incorporate the fluctuations of the market into our guidance, being flexible and not taking raises during years when your portfolio declines can also help increase the likelihood your portfolio lasts.

Maintain a cash balance.

We recommend keeping a cash balance from your portfolio to cover about 12 months' worth of total expenses, along with a short-term fixed-income ladder for your first few years of expenses. This may be especially important if the market drops in the first few years after you retire. Your cash reserves can help you avoid selling investments — and losing potential growth opportunities — if the market dips during the early years of your retirement.

Seek income guarantees.

You can receive guaranteed income through annuity solutions offered by insurance companies.[3] Annuities may provide a reliable income stream throughout your lifetime. To help combat rising health care and nursing home costs, consider options such as long-term care insurance. This could address how care is administered and how to pay for it.

Review your strategy regularly.

Your review may be your most important step. Remember, your retirement could last 25 years or more. Undoubtedly, your goals and situation will change over this time frame. Regular reviews and making adjustments (if necessary) may help ensure your strategy can provide for your needs throughout your retirement.

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What's my next step?

Depending on your individual goals, your withdrawal rate may be higher or lower than the ranges in this report. For example, by remaining flexible with your annual withdrawals or by including items such as insurance and income guarantees[3] in your portfolio, you may be able to increase your withdrawals.

You do not have to do this analysis yourself. Since the amount you take out directly impacts how long your money will last, work with your financial advisor to make this decision and regularly review it over time. Your financial advisor has the tools to help you analyze your retirement strategy, and make any necessary adjustments, to help position you to achieve your retirement goals. Together, you can develop a strategy that best suits your situation.

[1] Society of Actuaries RP-2006 Mortality Table Projected to 2021 using Society of Actuaries Mortality Improvement Scale MP-2021.

[2] Diversification does not guarantee a profit or protect against loss.

[3] Guarantees are backed only by the claims-paying abilities of the issuing insurance company.

Investing involves risk, including loss of principal. You should make investment decisions based on your unique objectives, risk tolerance and financial circumstances. Before investing, make sure you understand the risks involved.

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