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# The Financial Independence

PRACTICAL PERSONAL FINANCE NEWS FOR INDIVIDUALS

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## Goal Reached

Phase 2 of Jaxon's train display is complete and "Train Season" has come to a close. We finished just in time as the weather has improved and Jaxon has been outside playing more these days. We did reach our goal of creating the mountains and the bridge.

Reaching our goal has reminded me of a parallel of achieving long term goals. Jaxon and I worked on the project only two to three hours a week to garner success. Similar to saving for retirement or college. Slow and steady progress can yield stunning results over time.

Enjoy,
*Mike*

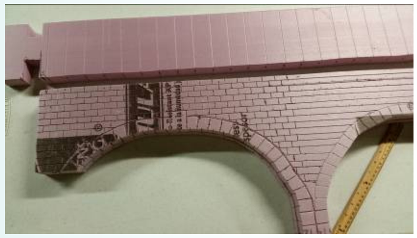

## In This Issue



## Calendar

Apr. 15th   Tax Filing Deadline

Apr. 21st - Teaching Class at South Elgin Park District

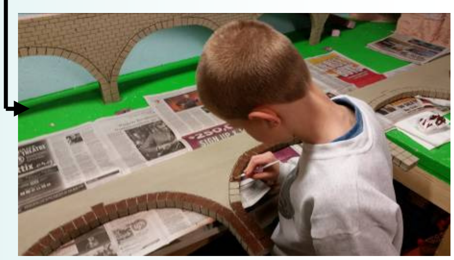


Engraving the Stones

Final Fitting Before Painting

Brand Spanking New Bridge

In the Paint Shop



Painting the Detail

To New? Aging the Bridge

A Look at Jaxon's Train Logo

Bridge Finished

Phase 2 Complete

See You Next Train Season for Phase 3…. Jurassic Park!

During your working years, you've probably set aside funds in retirement accounts such as IRAs, 401(k)s, and other workplace savings plans, as well as in taxable accounts. Your challenge during retirement is to convert those savings into an ongoing income stream that will provide adequate income throughout your retirement years.

Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio. The annual percentage that you take out of your portfolio, whether from returns or the principal itself, is known as your withdrawal rate. Figuring out an appropriate initial withdrawal rate is a key issue in retirement planning and presents many challenges.

### Why is your withdrawal rate important?

Take out too much too soon, and you might run out of money in your later years. Take out too little, and you might not enjoy your retirement years as much as you could. Your withdrawal rate is especially important in the early years of your retirement, as it will have a lasting impact on how long your savings will last.

### Conventional wisdom

So, what withdrawal rate should you expect from your retirement savings? One widely used rule of thumb states that your portfolio should last for your lifetime if you initially withdraw 4% of your balance (based on an asset mix of 50% stocks and 50% intermediate-term Treasury notes), and then

## Retirement Withdrawal Rates

continue drawing the same dollar amount each year, adjusted for inflation. However, this rule of thumb has been under increasing scrutiny.

Some experts contend that a higher withdrawal rate (closer to 5%) may be possible in the early, active retirement years if later withdrawals grow more slowly than inflation. Others contend that portfolios can last longer by adding asset classes and freezing the withdrawal amount during years of poor performance. By doing so, they argue, "safe" initial withdrawal rates above 5% might be possible. (Sources: William P. Bengen, "Determining Withdrawal Rates Using Historical Data," *Journal of Financial Planning,* October 1994; Jonathan Guyton, "Decision Rules and Portfolio Management for Retirees: Is the 'Safe' Initial Withdrawal Rate Too Safe?" *Journal of Financial Planning,* October 2004)

Still other experts suggest that our current environment of lower government bond yields may warrant a lower withdrawal rate, around 3%. (Source: Blanchett, Finke, and Pfau, "Low Bond Yields and Safe Portfolio Withdrawal Rates," *Journal of Wealth Management,* Fall 2013)

Don't forget that these hypotheses were based on historical data about various types of investments, and past results don't guarantee future performance.

### Inflation is a major consideration

An initial withdrawal rate of, say, 4% may seem relatively low, particularly if you have a large portfolio. However, if your initial withdrawal rate is too high, it can increase the chance that your portfolio will be exhausted too quickly, because you'll need to withdraw a greater amount of money each year from your portfolio just to keep up with inflation and preserve the same purchasing power over time.

In addition, inflation may have a greater impact on retirees. That's because costs for some services, such as health care and food, have risen more dramatically than the Consumer Price Index (the basic inflation measure) for several years. As these costs may represent a disproportionate share of their budgets, retirees may experience higher inflation costs than younger people, and therefore might need to keep initial withdrawal rates relatively modest.

### Your withdrawal rate

There is no standard rule of thumb. Every individual has unique retirement goals and means, and your withdrawal rate needs to be tailored to your particular circumstances. The higher your withdrawal rate, the more you'll have to consider whether it is sustainable over the long term.

*All investing involves risk, including the possible loss of principal; there can be no assurance that any investment strategy will be successful.*

## SuDoku

Each column, each row, and each box must contain each of the numbers 1 to 9.

No column, row, or box can contain two squares with the same number.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 4 | 7 | | 2 | | | | 6 |
| | | | | 7 | | | 3 | 4 |
| | | | | | | | 2 | |
| | | | 4 | | | | 1 | 3 |
| 2 | | 4 | 6 | 1 | 7 | 9 | | 8 |
| 5 | 8 | | | | 9 | | | |
| | 5 | | | | | | | |
| 7 | 6 | | | 9 | | | | |
| 4 | | | | 5 | | 1 | 8 | |

## LAUGH OUT LOUD

**Stuntmen**

**A van carrying a dozen movie stuntmen on the way to a film location in the mountains spun out of control on the icy road, crashed through the guardrail, rolled down a 90-foot embankment, turned over, and burst into flames. There were no injuries.**


**Not Right**

**"Johnny," said the teacher, "if coal is selling at $6 a ton and you pay your dealer $24, how many tons of coal will he bring you?"**
**"A little over three tons, ma'am," said Johnny.**
**"Why, Johnny, that isn't right," said the teacher.**

**"No, ma'am, I know it isn't," said Johnny, "but they all do it."**