

The Benefits of Sound Retirement Income Planning

Give yourself an hour, Google “retirement planning,” enter the labyrinth through any one of nine million page hits, and prepare to be overwhelmed by a sense of bewilderment and anxiety. Good luck if you’re sixty-two, thinking about retirement, and not sure how much you’ll need. If you’re looking for a general understanding of how to manage your money when you stop working, get ready to be frustrated. If you’re trying to figure out how much income you can pull out of your retirement portfolio, brace yourself for a wide range of alternatives. The overwhelming assortment of calculators, strategies and techniques is mind-boggling.

Of course, the two most common questions in retirement planning are “how much income can I get from my retirement portfolio?” and “how much capital will I need to get the income I want?” The answers provided by these websites are almost always couched in terms of *sustainable withdrawal rates*, which is simply the percent of a portfolio that can be withdrawn on an annual basis over a specified period of time without an unacceptably high risk of running out of money too soon.

In order to come up with their recommended *sustainable withdrawal rates*, most of these sites rely on one of three different theoretical models. Two of the most common approaches are *straight-line* return models and a statistical process known as *Monte Carlo* simulation. What is most troubling from a practical standpoint is that they often lead to wildly differing outcomes. The third, and perhaps the most common approach to developing *sustainable withdrawal rates* is based upon historical investment research that has come to be known as the “Trinity Study.” Undertaken by three college professors at Trinity University in Austin, Texas during the mid to late 90’s, this research has played a significant role in the ongoing debate over *sustainable withdrawal rates*. But again, most troubling is the fact that it generally leads to even different results. So, how are you to decide what to do?

Notwithstanding the problem of sorting through all the different recommendations, the really big issue with all of these *sustainable withdrawal rate* approaches is that they require you to sell investments every year. In other words, they force you to dollar-cost-average out of your retirement accounts—which is probably the worst thing you can do. Essentially, you end-up selling more shares when the markets are down, and selling fewer shares when the markets are up—which is exactly the opposite of a good retirement investment strategy. So, not only are you forced to decide between widely different lifestyle recommendations—without any guidance, but you are also forced to adopt a significantly flawed investment strategy. In addition to all that, the really devastating consequence of managing money using any of these approaches is that you have to accept a lower withdrawal rate—because it’s the only way to protect yourself from the potentially fatal consequences of dollar-cost-averaging out of investment accounts during retirement.

An antidote to all of these problems is a new retirement technique called The Grangaard Strategy®, which doesn’t require you to liquidate investments every year—and can therefore allow you to go after better lifestyles throughout retirement. Instead of selling something every quarter, or every six months, or every year, you give yourself the time you need to make better

sales decisions by using income ladders to replace your paychecks and investment “holding periods” to go after potentially higher rates of return on the growth side of your portfolio.

In addition to a bigger retirement paycheck, there are at least four other benefits to this approach. First, it allows you to plan for fluctuating retirement income needs. A key assumption in all of the other models is that you will plan for the same amount of inflation-adjusted income each year. But in reality, it seldom works this way. A realistic retirement plan forces you to create more realistic income budgets that will, in many cases, fluctuate substantially from year to year, and then to develop a plan and a strategy to meet those changing income needs. The notion of using one *sustainable withdrawal rate* to establish a single fixed annual income amount just isn't good enough anymore.

The second important benefit of managing money this way is that it allows you to “navigate” your portfolio. In other words, it takes into account the fact that we are not robots, and that we can all exercise judgment throughout retirement. *Sustainable withdrawal rate* approaches simply tell you to liquidate enough of your portfolio each year to get the income you need—and that's it. It's simple, it's mechanical, and there isn't a lot of room for ongoing decision-making. You just compute an annual income amount and stay the course—no matter what. But in reality, given changing market conditions and fluctuating account values, you may actually want to sell sooner, or later, or not at all. Why would you want to lock yourself into an approach that doesn't provide any flexibility? You shouldn't, and you don't have to. What you need is a dynamic, not a static approach—especially since most of us will tend to be net sellers of stock market investments during retirement.

Another important advantage of this technique is that it provides more control over the fundamental trade-off between retirement income and ultimate portfolio values. By recommending lower *sustainable withdrawal rates*, *Trinity Study* and *Monte Carlo* approaches make it much more likely that there will be a lot of money left over at the end of your life—and you don't really have much of a choice in the matter. Obviously, if you're taking out less income every year, as these approaches typically recommend, your account values are likely to grow—which is fine if you want a lot of money to go to your heirs or your favorite charity, but not so great if you need more income in retirement. And of course, more income in retirement is exactly what many of us do need. Unfortunately, *sustainable withdrawal rate* strategies that are heavily biased toward capital accumulation are unlikely to provide it. Without an alternative approach, most people will never even know they had a choice in the matter.

And finally, the fourth significant advantage of this approach is that it does not assume that it's okay to be out of money at the end of thirty years. All three of the *sustainable withdrawal rate* strategies assume that you will spend your portfolio down to zero over some fixed time-frame—typically thirty years. But while thirty-year retirement scenarios can make sense from a planning perspective, the idea that you will be “successful” if your money lasts thirty years is rather dubious if you actually live for thirty-five. The problem is, we don't know how long we are going to live, so we need a plan to reduce the risk that we will ever run out. Using life-certain annuities for the last income ladder, as anticipated by the Grangaard Strategy® approach, can help us do that. We don't just want to rely on a theory about the “odds” of having our money last—we need a strategy and a plan to help us make it happen.

You can learn more about The Grangaard Strategy® approach to retirement income planning, and educational events being offered in your area, by visiting www.TheGrangaardStrategy.com. Paul Grangaard can be reached at paul@pagrangaard.com or by telephone at 651-917-0139.

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