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Will You Outlive Your Money?

It's not all about how much you put away while you're working; it's also about how much you spend once you retire

by Mara Der Hovanesian

Retirees with plump nest eggs are attractive targets for unscrupulous financial advisers who advise them to make unwise withdrawals. "The 'why work' pitch is epidemic," says Peter Moujay, a Pensacola (Fla.) attorney. Moujay has represented some 100 retirees of Marathon Refinery in rural Robinson, Ill., and a similar number of AT&T telephone workers out of Michigan, who were targets of such a scheme. Here's a chart outlining how long your money will last given certain withdrawal rates. In this hypothetical case, a 60-year-old retiree who made \$80,000 a year and had an \$800,000 retirement nest egg would be flat broke by now if he retired Jan. 1, 2000, and took 10% a year from an aggressive stock portfolio. Even assuming average returns and a diversified portfolio, a retiree taking 10% a year has little chance of having money left at age 85. (Assuming 3% increases in payouts each year to keep up with inflation.)

HOW LONG WILL YOUR MONEY LAST?

Initial Withdrawal Rate	4%	8%	10%
Annual Withdrawal	\$32,000	\$64,000	\$80,000
Probability of Successful Retirement* (Money left at life expectancy)	93%	5%	0%
Average Predicted Balance @ 85* (Diversified portfolio @ 7%)	\$1,539,693	\$39,403	\$1,499
January 2000 Retirement, Actual Results** (Aggressive 100% stock portfolio)	\$424,081	\$91,149	\$0
January 2000 Retirement, Actual Results** (Diversified 40% bond, 60% stock portfolio)	\$613,538	\$271,043	\$99,928

* From Monte Carlo simulation based on 1,000 retirements utilizing random sequence of historical returns

** Actual performance of S&P 500, Lehman Agg. Bond Index less 1% management fee from Jan. 1, 2000, through Mar. 31, 2008

Data: Mark Congdon, The Horizon Group

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