WELLS FARGO ADVISORS

Withdrawal rates and your retirement

Important information for your retirement-income planning

Retirement represents a shift from depending on a paycheck from work to more of a dependence on other income sources such as savings, investments, pensions, and Social Security. As you make the transition into retirement, ensuring that these income sources can support you throughout your lifetime is critical.

Portfolio Withdrawal Rates during retirement

Successful and confident retirement planning is more complex than it is complicated. The complexity stems from planning for variables that consistently fluctuate and seem relatively uncertain over time. Even the least constrained retiree must strike a balance between creating income during their retirement with the unknown longevity of it. The rate at which you draw down your assets—your withdrawal rate—is one of the most important determinants of ensuring your savings last throughout your lifetime.

Withdrawal rates: probability of successfully meeting income needs

The level of income your investments need to generate often determines whether you can maintain your standard of living over a period of time. Traditionally, the less income you require from your portfolio, the more likely you are to meet your long-term goals.

Based on a 30-year retirement horizon (and using historical returns), the chart below illustrates the chance of success that certain investment allocations can meet specific retirement income needs. The initial withdrawal rate equals a percentage of the portfolio withdrawn during the first year with that amount inflated by 3% each year going forward to cover cost of living increases. As you can see, the likelihood of success is correlated with the withdrawal rate and the portfolio mix. Please see the following page for important assumptions and disclosures regarding this chart.

Chance of success over 30-year retirement

Withdrawal Rate	Stock / Bond Mix %				
	100/0	75/25	50/50	25/75	0/100
3%	93%	95%	98%	97%	80%
4%	83%	81%	78%	55%	9%
5%	64%	56%	39%	6%	0%

Although a portfolio weighted more heavily toward stocks appears to result in a higher percentage chance of success, traditionally, the more you invest in stocks, the greater potential for market losses.

Talk to Wells Fargo Advisors

Understanding how your long-term care needs will affect your retirement is essential to putting together a retirement income plan that truly meets your needs. Few people approaching this time in their lives have all the answers.

That's why sitting down with your Financial Advisor can help you make more informed and realistic decisions about what lies ahead.

The four inter-related components of a sustainable portfolio withdrawal: frequency, timing, magnitude, and longevity all play important factors in retirement success. You may want to answer these key questions about your financial strategy:

- How accurately have you estimated your expenses in retirement?
- What level of risk are you willing to accept in your portfolio?
- How long will you need your income to last for retirement?
- How might you plan for a financial emergency or significant unplanned expense?

The answers to these questions may help guide you to an appropriate allocation given your unique profile. Other factors can also a have a significant impact on your probability of successfully meeting income needs, including current and future savings, adjustments to your income needs, how long you expect to live as well as inflation.

While you have little control over market volatility or inflation, you can help protect your retirement savings by managing one factor that you can control—your withdrawal rate. Retirees who are well into retirement, and those whose portfolios have held up quite well, may decide a higher withdrawal rate is prudent. But if you are in your early years of retirement, withdrawing your income at a conservative rate now may dramatically prolong the life of your retirement income. This may even allow you to raise your withdrawal rate later in retirement.

Talk with a financial professional today to help determine if you have the appropriate withdrawal to last throughout your retirement.

Important: The projections or other information generated for each Portfolio Withdrawal Rate regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results and may vary with each use and over time. The Portfolio Withdrawal Rates chart does not reflect and may not be used to promote any specific investment product. The results do not reflect expenses (i.e., commissions, advisory fees, and mutual fund expenses) associated with a particular investment. Taxes have not been taken into consideration.

The Probability Analysis (commonly referred to as Monte Carlo) simulation generates random returns based on the historical standard deviation forming a normal distribution around the mean. After returns for each asset class are generated, the returns are further refined by factoring in approximate historical correlations between the asset classes. This will result in a universe of returns for each asset class. The portfolio's weighted average return is calculated based on each asset class' weight in that scenario's asset allocation, in effect rebalancing every year.

To generate the percent chance of success for each allocation and each portfolio withdrawal rate, 10,000 scenarios were generated. All scenarios that had an ending balance equal to or greater than $0 were considered successful. Each scenario that had an ending balance less than $0 was considered a failed scenario. The number of successful scenarios, based upon the 10,000 scenarios generated, established the percent probability of an allocation meeting the withdrawal rate. Using identical assumptions, the mathematical process used in the Portfolio Withdrawal Rates grid can be replicated. The asset classes utilized for Portfolio Withdrawal Rates illustration are listed below. Any additional asset classes from this time period, whether they have similar, inferior, or superior characteristics, have not been taken into consideration.

Capital Market Assumptions

Capital Market Assumptions for all asset classes assume a broadly diversified portfolio generally representative of the risks and opportunities of the asset class. To the extent that the investor's portfolio is not as diversified as the assumptions made for the asset class, the return and risk potential for the portfolio may vary significantly from the assumed Capital Market Assumptions.

The Capital Market Assumptions used within this illustration are based on a building-block approach of risk premiums and Sharpe Ratio Equivalency. The returns for each asset class reflect the premium above the short-term risk-free rate of return that investors are likely to demand in order to compensate for the risk of holding those assets. Sharpe ratio equivalency provides a consistent comparison or long-term risk premium across various asset classes for a 10 – 15 year time horizon or a period, covering more than one economic cycle. These long-term assumptions may differ greatly from the short-term performance and volatility experienced by your actual investment holdings. There are no assurances that the estimates will be achieved. They have been provided as a guide to help you with your investment planning.

Representative index is provided to clients as an example of a public index that generally reflects the associated asset class. Capital Market Assumptions are not based on the Representative Index. You cannot invest directly in an index.

Asset Class	Downside Risk	Average Annual Return	Representative Index
Large Cap Blend	-15.2%	8.9%	S&P 500
Intermediate Taxable Fixed Income	-4.0%	3.2%	10-Year US Treasury Bond

This chart is for illustrative purposes only. Investors incur expenses when investing (i.e., commissions, advisory fees, and mutual fund expenses). Figures do not reflect the effects of taxes or transaction costs.