

Planning for Retirement: 5% Distribution Rule

What is the 5% Distribution Rule?

The 5% Rule is a guideline based on historical data of how much money a retiree should withdraw from their retirement funds each year.

Advantages

- Easy to implement
- Maintains a consistent income stream which can be adjusted for inflation.
- Allows non-retirees to take preview their retirement income. If a yearly 5% distribution of your portfolio is not enough to sustain your lifestyle, adjustments should be looked at. This includes, lowering expenses, working longer in order to build-up your portfolio and/or saving more.
- Built off a worst-case scenario, meaning your portfolio is likely to continue growing although this isn't guaranteed.

Challenges

- If your retirement portfolio doesn't return 5% yearly, your retirement account will decrease. But, if you average a 5% return or greater, your assets will live in perpetuity.
- Requires a diversified portfolio that maximizes return while minimizing risks.

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