ENDOWMENT WEALTH MANAGEMENT®
Fee-Only Fiduciary Advisors

EWM Personal Finance
Tips & Solutions

Planning for Retirement: 5% Distribution Rule

What is the 5% Distribution Rule?

The "5% Distribution Rule" is a commonly discussed retirement planning concept that uses a hypothetical annual withdrawal rate of 5% of a retirement portfolio. It is intended as a general educational illustration and is not a recommendation for any investor. The appropriateness of any withdrawal strategy depends on an individual's financial circumstances.

Advantages

- Easy to implement.
- May be used as a framework for estimating retirement income.
- Allows non-retirees to take preview their retirement income. If a yearly 5% distribution of your portfolio is not enough to sustain your lifestyle, you may want to consider adjustments. This includes, lowering expenses, working longer to build-up your portfolio and/or saving more.
- Built off a worst-case scenario, meaning your portfolio may continue growing depending on investment returns, inflation, taxes, expenses, longevity, and market conditions.

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 may live in perpetuity.
- Requires a diversified portfolio that seeks to maximize return while minimizing risks.
- Future investment results cannot be predicted or guaranteed

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