RETIREMENT

Is It Time to Retire These Retirement 'Rules'?

Why the conventional wisdom on saving, spending and Social Security isn't always right

By Martha C. White and Penelope Wang, AARP | 9 Comments

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Planning for and living in retirement requires some daunting financial decisions. How do you create a steady stream of income? What's the best way to split your portfolio between stocks and bonds?

When should you start collecting Social Security?

Facing these complex choices, you may be tempted to rely on long-established rules of thumb, such as the 4 percent rule for retirement withdrawals or the 80 percent rule for replacing work income. Follow them, the conventional wisdom goes, and you put yourself in the best position to not outlive your money.

These guidelines may be appealingly simple, but they're not right for every retiree. A solid retirement strategy requires homework and proper planning based on your personal finances and goals and the broader economic landscape. Understanding when to adhere to popular "rules" and when to break them can help you design a plan that fits your needs.

"All of these rules of thumb provide good starting points," says Tim Steffen, director of advanced planning at Baird, a private wealth management firm based in Milwaukee. "The only rule I have is to ignore all the rules of thumb."

Here are seven retirement rules financial advisers and recent research suggest may be ripe for reconsideration and how varying them up might suit your needs.

1. The 4 percent rule

The rule: Take out 4 percent of your savings in your first year of retirement and bump up the dollar amount each year by the inflation rate. Analyzing historical market returns, William Bengen, the financial planner credited with developing the rule in 1994, theorized that this withdrawal rate would get most people through 30 years of retirement without running out of money.

The rethink: "The 4 percent rule is a great starting point since it's so easy for people to understand," says Mari Adam, a certified financial planner in Boca Raton, Florida, but it could require tweaking.

One reason is that Bengen's equation reflected a different investing landscape, assuming a typical retiree portfolio more or less split between stocks (which are more volatile but can bring higher returns) and government bonds (which carry less risk but tend to provide more modest earnings).

Today's investors have access to savings vehicles with a wider array of asset classes, such as foreign securities and real estate, Steffan says. "With the evolution of mutual funds and ETFs [exchange-traded funds], it's so much easier to get exposure to other types of investments," he says, giving savers more options to fine-tune the ratio between risk and returns.

Morningstar researchers who recently re-evaluated the 4 percent rule based on more recent market data peg 3.7 percent as the highest safe starting rate to maintain your savings through a 30-year retirement.

Adam recommends reviewing your withdrawal strategy every year and adjusting it based on market returns, perhaps skipping an inflation increase following a down market.

2. The 80 percent rule

The rule: You should aim for sufficient retirement savings to replace 80 percent of your work income. You'll be able to maintain the same lifestyle with less money because you'll no longer have work-related expenses like commuting and contributing to retirement accounts.

The rethink: Steffan says the 80 percent rule "assumes that you're going to live the exact same lifestyle" throughout retirement. But are you likely to be living the same way at 80 as you were at 65?

"Retirement spending typically follows a cycle, with many retirees spending as much or more in the early years, reducing spending in mid-retirement and perhaps experiencing higher long-term care costs later on," says Christine Benz, director of personal finance at Morningstar and author of *How to Retire.*

Rather than picking a numerical income target based on what you used to earn, plan around what you expect to spend. Pencil out a retirement budget, including estimates for travel, new hobbies or overdue home repairs.

Revisit your budget annually, or do spot checks to account for significant changes such as a health crisis or unexpected windfall. A certified financial planner can help build a budget based on your needs; many work on an hourly basis or for a flat fee. The National Association of Personal Financial Advisors and the CFP Board of Standards have search tools you can use to find one in your area.

3. The tax-deferral rule

The rule: The money you put into a traditional IRA or 401(k) isn't taxed until you take it out. Assuming you'll have less income and be in a lower tax bracket in retirement, it makes sense to defer those taxes until then.

The rethink: You may have to make some big withdrawals to cover big-ticket expenses in retirement for things like home modifications or long-term care. With your money in tax-deferred accounts, “every expense is more expensive,” says Scott Cole, founder and president of Cole Financial Planning and Wealth Management in Birmingham, Alabama.

Say you need $10,000 to repair your roof. You’ll have to take out $10,000 plus enough to cover the taxes you owe on the withdrawal. In effect, Cole says, that money “isn’t 100 percent yours.” Income from those big withdrawals could also put you back in a higher tax bracket.

Withdrawals from a Roth IRA or Roth 401(k) are not taxed since you pay taxes upfront on your contributions. Converting some pre-tax savings to a Roth account means paying taxes on the converted amount now but could spare you big tax bills and big headaches down the road. Being able to pick and choose which account to draw from when “gives you flexibility so you can react to whatever the tax situation is,” Cole says.

4. The rule of 110

The rule: The share of your assets invested in stocks or stock funds should be 110 minus your current age. For instance, a 45-year-old should have 65 percent of their retirement savings in stocks, a 55-year-old should have 55 percent, and so on. As you get older and have less time to recover from a market downturn, the balance steadily tips toward less risky holdings like cash and bonds.

The rethink: Your risk tolerance and financial goals may not closely map to your age. “An older person could be 75 percent in stocks if they could handle the volatility and perhaps had other resources, such as a pension,” says Gordon Achtermann, president of Silverstone Financial in Annandale, Virginia.

Just as spending ebbs and flows throughout retirement, your investments should, too, says Ryan Derousseau, a financial adviser at United Financial Planning Group in Hauppauge, New York. For example, reducing your stock holdings too early means forfeiting potential gains that could come in handy if your medical costs spike.

“That money could be invested and growing,” he says. “You’re so fearful of losing money, you’re not taking advantage of this lull to protect you long-term.”

5. The 95-year-lifespan rule

The rule: Project your retirement income needs as if you will live to 95 to minimize the odds of outliving your money.

The rethink: Strategizing to avoid running out of money at the end of life is prudent, but few people make it to age 95. Among Americans ages 60 and older, 95 percent “have at least one chronic health condition that may impact longevity,” health care data company HealthView Services notes in a recent white paper on lifespan and financial planning.

A realistic assessment of your probable lifespan, based on actuarial data and accounting for variables such as age, sex and health, makes a better starting point for assessing your retirement needs, the report concludes. You may find, for example, that you can afford to spend more on the things you want to do in retirement while you can still enjoy them.

"It's all about living as much as you can in those early years," says Robert Pagliarini, president and founder of Pacifica Wealth Advisors in Irvine, California. "I really strongly suggest that, as you enter retirement or even a year before, plan the trips you want to take and the hobbies you want to take up."

6. The delay-Social Security rule

The rule: You can claim your biggest Social Security retirement benefit at age 70, so you should put it off until then.

The rethink: The math is undeniable. Say you were born in 1963. If you start Social Security this year at the minimum age of 62, you'll get 70 percent of the monthly benefit calculated from your lifetime earnings record. At your full retirement age — in this case, 67 — you'd get 100 percent. Each year you wait after that, you'd get another 8 percent, up to a maximum of 124 percent at 70.

Still, the most recent Social Security data shows that in 2023, less than 9 percent of retirees claimed benefits at 70 or later. More than 1 in 5 (22.5 percent) filed at 62. There can be good reasons for starting Social Security early, even if it means receiving less per month.

"It may be that you have a serious health issue that affects your life expectancy, or you lack other income sources and need that money now," says Douglas Boneparth, president of Bone Fide Wealth in New York City. In these situations, it might make sense to start collecting benefits sooner.

An early claim could also benefit married couples with wide income disparities, who may be able to maximize their lifetime Social Security income by strategizing around spousal benefits. For example, the lower earner could claim their retirement benefit early to provide some immediate income, then switch to a bigger spousal benefit when the higher-earning partner files.

With an online My Social Security account, you can check estimated retirement and spousal benefits to see if this strategy could work for you.

7. The downsizing rule

The rule: The kids are gone, and the stairs are starting to strain your knees. Do you still need a big family home? Moving to a smaller place can generate cash from selling the old house, reduce your living costs and provide a more suitable setting for aging in place.

The rethink: Relatively few older adults move. A 2023 report by Harvard's Joint Center for Housing Studies found that between 2016 and 2021, just 5 percent of households age 65 or older relocated in the previous year compared to 16 percent of those under 65.

Why are so many retirees staying put? For one thing, a hot housing market mitigates the economic benefits of downsizing. According to Redfin, the median U.S. home price has gone up 45 percent in the last five years, from $289,000 to $418,000.

"When you factor in the cost of a new residence and other moving expenses, you may not come out that much ahead," says Adam.

For another, retirees with low-rate mortgages might balk at today's higher rates. Freddie Mac reports that the average for a 30-year fixed-rate loan in early March was 6.63 percent.

If you're otherwise happy where you are, consider renovations to keep your home accessible and safe as your needs change, such as installing a bathroom on the main level or improving the lighting. Many state and local agencies offer guidance on aging-in-place renovations and may provide financial assistance. The federal government's Eldercare Locator can help you find services in your area.

Martha C. White writes about business, finance and the economy. Her work has appeared in The New York Times, *CNN*, Time, *NBC News*, Money *and other outlets.*

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NEWEST

DavidC378034 12 DAYS AGO

Social Security is predicted to go bust from present standards to 72% of it in about 10 years isn’t it? So one has to make up for the gap themselves. The National Debt at the present time is nearing 37 trillion dollars and I doubt if the government will accommodate the massive influx. If it does then the inflationary gap of COLA will not be made up.

REPLY | 0

jwnholmes 12 DAYS AGO

There are other considerations about taking the SS payments late.

I took mine at age 62 because I knew I could make more than the 8% offered. In the past 9 years I have averaged over 10% and my break even date for my SSA is when I reach 84. I think I can live with that.

REPLY | 0

kd1280 12 DAYS AGO

My wife and I retired 3 years ago. Our annual gross income is 80% of pre-retirement income but is take home is 20% higher. We no longer have 401k/403b deductions, HSA deductions or FICA deductions.

REPLY | 0

BalbonisMoleskine 13 DAYS AGO

Regarding No. 7, many communities use soaring property taxes to encourage the elderly to downsize so young families can have those homes.

REPLY | 5 Replies | 1

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> **bj73435909** 12 DAYS AGO
>
> Reply to **BalbonisMoleskine**
>
> If everyone had the same income, a high sales tax would be fine. However, millions of people in this country live under 200% of the poverty level, which is not a great income. Flat taxes hurt those least able to pay them.
>
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>
> Everyone else pays higher taxes so they can have renewable credits such as the EITC, plus TANF, health care so deeply subsidized to the point that it's nearly free and other benefits. It's not too much to expect them to chip in more to pay for all of the infrastructure and public services that sales taxes fund.
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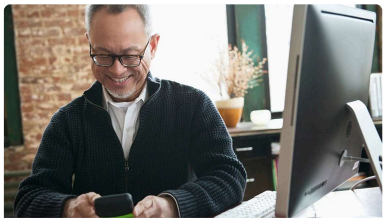

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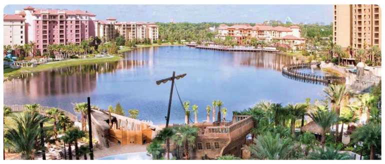

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