FINE-TUNE YOUR RETIREMENT WITHDRAWAL STRATEGY

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To increase the likelihood your retirement savings will last your lifetime, it's critical to prepare a sustainable retirement withdrawal strategy. Take time before retirement to accurately calculate your **retirement income need.** You will also need to identify your retirement **surplus or shortfall** to fully assess if you are financially prepared for retirement. GuideStone can help you evaluate your retirement income need and develop a **personalized retirement solution** that works best for you.

THREE EASY STEPS

can help you determine if you are on track for a sustainable retirement.

1 **STEP ONE:** Calculate Your Retirement Income Need.

2 **STEP TWO:** Calculate Your Surplus or Shortfall.

3 **STEP THREE:** Understand and Choose Your Retirement Solution.

1 STEP ONE: Calculate Your Retirement Income Need.

Calculate your monthly expenses and consider categorizing them into essential and non-essential well in advance of retirement.

What are your expenses?

Retirement expenses include everything from housing, food and utilities to transportation, taxes and medical expenses. Remember, it's important to take inflation and increased costs into consideration — especially in regard to medical visits/procedures which may increase with age.

RULE OF THUMB

For a quick estimate, financial planners suggest replacing 70%–90% of your final working year's income, but knowing your actual expenses is preferable.

What are your lifetime income sources?

The most common sources of lifetime income streams outside of retirement savings (i.e., 403(b), 401(k), IRAs, etc.) include:

- Social Security (visit *SSA.gov/MyAccount* to access your statement)
- Annuities, pensions and other lifetime income

What is your retirement income need?

To identify your monthly retirement income need, simply subtract your monthly lifetime income sources from your retirement expenses (essential and non-essential):

Retirement Expenses
– Lifetime Income Sources

Retirement Income Need

If the expenses are more than your lifetime income, this figure is your **retirement income need** (i.e., the amount of expenses that you will not be able to cover with your lifetime income). This is the amount of additional retirement income needed from your retirement savings (i.e., employer-sponsored 403(b) and 401(k) plans, IRAs and personal savings) to maintain your current standard of living.

2 STEP TWO: Calculate Your Surplus or Shortfall.

In order to calculate your surplus or shortfall, knowing your sustainable withdrawal rate is **particularly important.** If you withdraw too much during retirement, you could run the risk of depleting your assets before the end of your life (longevity risk).

What is your sustainable withdrawal amount?

In order to develop a sustainable strategy, you need to calculate a monthly sustainable withdrawal amount. The withdrawal rates shown below are, based on your age at retirement, the maximum amount that should be withdrawn per year. If you are married, the youngest spouse's age should be referenced.[3] Based on the appropriate rate listed below, calculate a sustainable withdrawal amount from your retirement savings (i.e., employer-sponsored 403(b) and 401(k) plans, IRAs and personal savings, such as investment accounts, savings accounts and CDs).

HOW LONG CAN I EXPECT TO LIVE?

For those reaching **age 65 today**,

A man can expect to live, on average, until age **84.3**.

A woman can expect to live, on average, until age **86.6**.[2]

Retirement Age	Sustainable Withdrawal Rate
59 or less	3.50%
60–65	4.00%
66–69	4.50%
70 and over	Greater of 5% or RMD

Note:

Asset sustainability using these rates is not guaranteed. Proper asset allocation also plays a critical role.

$$\frac{\text{(Retirement Savings Balances } \times \text{ Applicable Sustainable Withdrawal Rate)}}{12} = \text{Sustainable Withdrawal Amount}$$

Do you have a surplus or shortfall?

Subtract your earlier calculated retirement income need from your sustainable withdrawal amount. If this number is negative, then you have a **shortfall**, meaning your retirement income need is not completely covered by your sustainable withdrawal amount. Before proceeding, you may need to consider:

1. **Reducing your retirement expenses starting with non-essential expenses**
2. **Contributing more to your retirement savings plans before retirement**
3. **Working longer, and perhaps even into retirement**
4. **Reviewing your retirement income solutions**

If this number is positive, then you have a **surplus**, and your sustainable withdrawal amount completely covers your income need. You're able to move forward to Step 3 to determine the appropriate withdrawal solution(s).

3 STEP THREE: Understand and Choose Your Retirement Solution.

Based on your individual preferences, consider these options to make withdrawals from your employer-sponsored plans, IRAs and/or personal savings:

Life Income Annuity

This option provides monthly income payments for the rest of your life or the lives of both you and your spouse (if named joint life applicant). Once you've made this decision, you cannot change your withdrawal strategy. This lifetime payout option provides ease of mind, as you know that part of your retirement income will last for the rest of your life, reducing longevity risk. Keep in mind that in purchasing a life income annuity you may trade all or a portion of your invested retirement balance for a lifetime stream of income.

Systematic Withdrawal

This option provides flexible income that you can change at any time. Payments are sent to you on a regular basis (such as monthly). You retain responsibility for investing your retirement account balance. Using the calculated sustainable withdrawal rate helps you establish an adequate withdrawal payment per month. Each year, you can increase your withdrawal amount to adjust for inflation (if needed). Keep in mind that, depending on market volatility and/or if you withdraw more than a sustainable amount, you increase your longevity risk.

Combining Income Solutions

Choosing a life income annuity in combination with a systematic withdrawal can help meet different expenses over time. A life income annuity is most useful for paying essential expenses. Whereas, a systematic withdrawal is best for paying non-essential expenses.

For a better understanding of your retirement withdrawal strategy, turn to the back page for a working example.

GuideStone is here to help you with your retirement planning needs. Understanding your retirement income need, your surplus or shortfall and available withdrawal solution can help you develop an appropriate withdrawal strategy and minimize the risk of outliving your assets. Plan ahead and protect your financial future by making informed withdrawal decisions.

To learn more about retirement income withdrawal strategies that are right for you, contact GuideStone at 1-888-98-GUIDE (1-888-984-8433).

EXAMPLE

A married couple, both age 64, looking to retire immediately, has $170,000 in his 403(b) and $100,000 in her IRA for a combined savings of **$270,000.**

They establish that their monthly essential expenses are $3,700 and monthly non-essential expenses are $100, making total retirement expenses **$3,800.**

Their lifetime income source is as follows: They are scheduled to receive retirement income of **$2,800** at age 64 ($2,100 for Social Security and $700 for her pension). Alternatively, if they waited one year, their retirement income would increase to $3,100 at age 65 ($2,275 for Social Security and $825 for her pension).

Their sustainable withdrawal rate is **4%**, since they are within the 60–65 sustainable withdrawal rate age band.

To determine their withdrawal strategy:

[1]Patricia J. Purcell, *Income Replacement Ratios in the Health and Retirement Study,* U.S. Social Security Administration Office of Retirement and Disability Policy, (2012), *SSA.gov/policy/docs/ssb/v72n3/v72n3p37.html.*

[2]Social Security Administration: 2016 Life Expectancy Data, accessed May 18, 2016, *SSA.gov/planners/lifeexpectancy.html.*

[3]Sustainable withdrawal rates based on summary of research by Kitces and Otar's sustainable withdrawal rate research and models.

- *20 Years of Safe Withdrawal Rate Research,* Michael Kitces, March 2012.
- *Compendium of Sustainable Withdrawal Rates, Part I,* Jim Otar, September 2014.

[4]This is for informational purposes only. This is not intended to be indicative of an actual annuitant scenario. This annuity example is based on a spousal couple both age 65 selecting a GuideStone Financial Resources 100% Joint Life Income Annuity with GuideStone's annuity funding rate as of October 2016. Call to request a personal retirement income estimate.

1 STEP ONE: Calculate Your Retirement Income Need.

First, they calculate their retirement income need of **$1,000.**

	Retirement Expenses	$3,800
–	Lifetime Income Sources	$2,800
	Retirement Income Need	**$1,000**

2 STEP TWO: Calculate Your Surplus or Shortfall.

Second, they calculate their shortfall of **$100.**

Subsequently, they decide to wait one year to retire at age 65. Then they calculate their retirement income need of $700 as well as their surplus of $300.

Please note, in addition to working a year longer, they continue to contribute to the 403(b) and IRA. Although this example doesn't show expense increases, you should consider that expenses can increase due to inflation when choosing your withdrawal strategy.

	Retirement Income Need	**$1,000**
–	Sustainable Withdrawal Amount	$900
		(4% of $270,000 divided by 12)
	Shortfall	**$100**
		(Unsustainable)
	Retirement Expenses	$3,800
–	Lifetime Income Sources	$3,100
	Retirement Income Need	**$700**
–	Sustainable Withdrawal Amount	$1,000
		(4% of $300,000 divided by 12)
	Surplus	**$300**
		(Sustainable)

3 STEP THREE: Understand and Choose Your Retirement Solution.

Then, they develop a combination of solutions to meet their preferences/needs:

Of their $700 retirement income need, they plan to:

- Cover $600 per month (essential expenses) with an annuity
- Pay the remaining $100 per month (non-essential expenses) with a systematic withdrawal

Conclusion: This combination of solutions provides adequate income to maintain their standard of living, reduces longevity risk, provides liquidity for non-essential and unplanned expenses and increases their opportunity to leave legacy assets for their beneficiaries.

To do so, they:

1. **Annuitize** $140,000 of their retirement assets for the $600 per month[4]
2. Leave the remaining $160,000 available for their **systematic withdrawal** of $100 per month, which is also a sustainable withdrawal because it's less than the 4% sustainable rate for their age

In this example, the couple is most concerned about longevity risk and would like their lifetime income to meet essential retirement expenses; they also desire money to be available for non-essential expenses.

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