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When It’s Time to Spend Down Your Assets

After a lifetime of saving and investing, it’s hard to spend down assets. It took a lot of work to accumulate your net worth and whittling it down can be disturbing. Then there’s the worry of running out of money or encountering unexpected expenses that take a chunk out of your financial security net. At the same time, this is your opportunity to finally relax and enjoy new activities.

It's time for some planning.

First Steps

Your starting point needs to be understanding how much money you need to keep daily expenses covered. This includes loan payments, utilities, insurance, property taxes, medical expenses, travel requirements, memberships, food and more depending upon your lifestyle and family commitments.

Next is determining how much money is available to you on a regular basis. This goes beyond investment income to Social Security, pensions, annuities, rental income, Required Minimum Distributions (RMDs) from retirement accounts, and known interest and dividend income. The difference between the money you need and the income you have is where liquidating assets begins.

No Simple Rules

There’s an inclination in the financial industry to look for simple answers. In 1994, financial advisor William Bengen published a paper in the *Journal of Financial Planning*, "Determining Withdrawal Rates Using Historical Data," that found retirees could safely spend about 4% of their retirement savings in the first year of retirement, adjusting subsequent annual withdraws by the rate of inflation.

The major problem with this approach is the sequence of returns. If investors encounter a bear market early their retirement years, withdrawing a fixed amount from a sinking portfolio could exhaust their financial assets much sooner than expected. The rate of inflation will also impact spending needs, to say nothing of a medical emergency or disaster.

The problem with simple answers is that retirement situations vary enormously. One retiree may opt for a very simple lifestyle, another may have family priorities or a bucket list of desired experiences. Lifestyles also change over your retirement years. You may want to travel while you can or spend more time with family. Later years may require assistance with living requirements.

A comfortable retirement requires planning, but it also requires flexibility. A lot of changes can take place over the next five or 10 years. While it can be very helpful to work with a financial advisor or estate planner, there are general rules you should follow:

- Have a cash reserve. This provides a cushion from having to liquidate assets at a loss.
- Be very wary of helping others out and incurring financial risk for yourself.
- Adjust spending in response to economic conditions.
- Minimize borrowing and eliminate costs you don’t need to incur, such as subscriptions that are rarely used.
- Think about what makes you happy and find ways to build that experience into your life. Retirement is more than not going to work. It is a time to pursue interests you have not been able to find time for before, to try new things or to become more expert at what you do enjoy.
- Socialize. Find a tribe, a social group you enjoy, volunteer, meet neighbors and interact with others. Loneliness is the greatest threat to a good retirement. It’s not just about the money.

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