

5 Myths About Managing Money in Retirement

Chances are, you worry about having enough money in retirement to be able to maintain your lifestyle and accomplish the goals you have for yourself, your family and your legacy. Even our wealthiest clients express this concern, not because they are spendthrifts, but because the future is inherently uncertain. Unpredictable variables, including market returns, unexpected life events, tax policy and more — not to mention the discomfort that comes with losing employment income — weigh on their minds.

To help you minimize these concerns — and focus on factors you can control — here are some myth-busting strategies for working toward optimal financial outcomes during the exciting yet daunting period of retirement.

01 | MYTH You should spend about 4% of your assets per year

The financial industry has long espoused the “4% rule” for the amount one can theoretically safely withdraw from their portfolios and spend each year in retirement. This rule of thumb originated in 1994 from research by William Bengen, a now retired financial advisor, in the *Journal of Financial Planning*. While Bengen has since updated his research,¹ the 4% withdrawal rate remains ubiquitous in the financial planning industry.

But like most financial planning strategies, one size does not fit all. The 4% rule does not optimally account for certain variables, including:

- **Time horizon:** Some retirements are longer than others
- **Asset allocation:** Different investors have different risk tolerances; those with a greater appetite for risk may be able to spend more and vice versa
- **Spending habits:** Some investors may be able to achieve higher long-term returns if they are able to spend less during market downturns and avoid selling assets at temporarily depressed prices

While the 4% rule is not without its merits (it has provided a relatively conservative guidepost that has probably prevented many retirees from overspending²), you can likely identify a more dynamic approach with your advisor — one that better aligns with your specific needs and preferences.

02 | MYTH Every retiree should deplete their taxable assets before withdrawing from their tax-deferred accounts

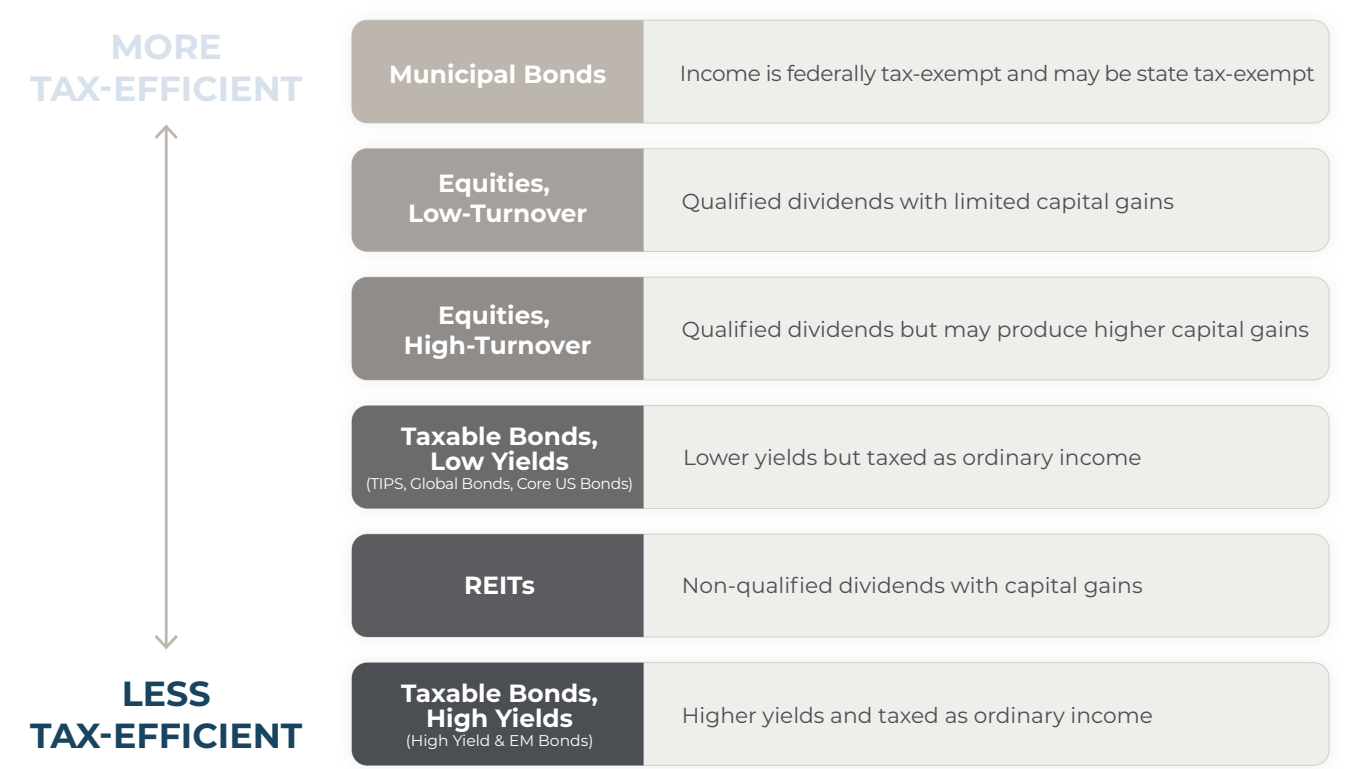
Conventional wisdom suggests that retirees should withdraw from their taxable accounts before dipping into their traditional retirement accounts (i.e., traditional IRA and 401k accounts that you contributed to on a pre-tax basis). The premise is that one should allow retirement assets to grow tax-deferred for as long as possible, since taxes erode returns.

While this approach certainly makes sense for some retirees, it's not necessarily optimal for two main reasons. First it does not factor in retirees' total tax picture. Withdrawals from taxable accounts are generally taxed at more favorable capital gains tax rates, whereas withdrawals from traditional tax-deferred accounts are generally taxed at higher income tax rates. This means that if you rely only on taxable accounts for a number of years, you could face larger tax bills in subsequent years when it comes time to withdraw from your tax-deferred account. You may be able to spread this liability across several years, and in turn, avoid a higher tax bracket. In short, for some individuals, the tax-deferred growth achieved by leaving retirement accounts untouched is not enough to offset the income tax burden in the years when they need to exclusively pull from their retirement accounts.

Second, it may not result in optimal investment diversification and asset location. If you have employed favorable asset location and you withdraw from your taxable accounts first, you would need to either forgo optimal diversification by allowing your allocation to be more heavily weighted toward the high-income assets left in your retirement accounts, or begin investing in those higher-income, less tax-efficient assets in your taxable accounts. This inefficient diversification or asset location may not justify the potential tax-deferred growth that results from leaving your retirement accounts completely untouched.

Optimizing Asset Location

Investors who have a combination of taxable and retirement accounts can minimize taxes, and thereby potentially enhance long-term after-tax returns, by placing more tax-efficient assets in taxable accounts and less tax-efficient assets in retirement accounts.



03 | MYTH Social Security won't be around much longer

Despite alarmist headlines, the Social Security Board of Trustees expects the Social Security trust to have sufficient assets to pay full benefits on a timely basis until 2033. After that, it expects continuing taxes (Social Security is a pay-as-you-go system) to cover 77% of scheduled benefits.³

Thus, yes, Congress will need to act at some point — by reducing benefits, increasing taxes or a combination of both — to cover the future shortfall. But the probability of not acting seems remote, given the broad impact of the program and the associated political ramifications. In the rare event Congress does not address the shortfall, the program would continue to pay benefits, albeit at reduced levels, as long as future beneficiaries continue to pay Social Security payroll taxes.

04 | MYTH You should move all your money to low-risk bonds

This is simply not the case. Diversification is important at any age. While reducing portfolio risk as you get older often makes sense, your allocation to stocks and other higher-risk investments should be determined by many other variables, including:

- What you plan (and can afford) to spend during retirement
- What you would like (and can afford) to leave as gifts to loved ones and charities
- Your risk tolerance
- Taxes
- Your expected lifespan

A 0% allocation to stocks rarely makes sense in consideration of these variables and others — even during the later stages of life.

05 | MYTH You should do nothing in bear markets

Hopefully, you know to avoid attempts to time the market by reducing market exposure ahead of weakness and increasing it ahead of recovery. Beyond research that demonstrates the counterproductive outcome of these attempts,⁴ fixating on a variable you can't control (market performance) can cause unnecessary stress.

However, that doesn't mean there's nothing you can do during periods of market stress to improve your financial outcome in retirement. Examples of more productive strategies that we help clients execute when significant volatility occurs include tax-loss harvesting, investing excess cash and/or rebalancing into target asset allocations, Roth IRA conversions, trust strategies and more.

The common thread between these retirement myths and our proposed solutions is that no two retirement plans should look the same. Our assets, life journeys and goals are simply too complex for boilerplate advice to serve them well.

If you need retirement planning advice — or a second opinion on your existing plans — please reach out to us. Helping retirees minimize stress and maximize fulfillment in retirement is one of the most rewarding experiences we have as advisors.



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¹ Longo, Tracey, "Creator Of 4% Rule Says New Withdrawal Target Is 4.7%" FA Financial Advisor, December 9, 2022, <https://www.fa-mag.com/news/creator-of-4--rule-says-new-withdrawal-target-is-4-7-71026.html>. Accessed May 19, 2023.

² Berger, Rob, "What Is The 4% Rule for Retirement Withdrawals?" Forbes, February 19, 2023, <https://www.forbes.com/advisor/retirement/four-percent-rule-retirement/>. Accessed May 19, 2023.

³ The 2023 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, March 31, 2023, <https://www.ssa.gov/oact/TR/2023/index.html>. Accessed May 18, 2023.

⁴ For example, the following research demonstrated that the volatility experienced by investors actively pursuing returns is nearly 50% higher than the corresponding volatility of stock returns: Dichev, Ilia D. and Zheng, Xin, "The Volatility of Stock Investor Returns," May 11, 2021, <https://ssrn.com/abstract=3663350>. Accessed May 18, 2023.

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