Wealth Management
Dominion Securities

Danielle M. Slavin, CFA
Senior Portfolio Manager
604-257-3204
danielle.slavin@rbc.com

Brent L. Nichols, CFA, CFP
Portfolio Manager
604-257-3216
brent.nichols@rbc.com

Worried about running out of money in retirement? We can help.

Many investors worry about outliving their retirement savings. And given today's low interest rates, it's a legitimate concern.

The majority of our clients do not have a traditional pension plan.

Not long ago, you could buy GICs and expect the interest earned to cover living expenses. But now that interest rates are lower, this is no longer a viable option for most investors.

Not surprisingly, many investors are now looking at equity investments as a way to boost returns in retirement. But that too comes with risk: equity volatility can permanently impair your investment portfolio if you need to make withdrawals when equity markets are down.

Compounding the problem of volatility is the lengthy duration of recent bear markets. As you might recall, the market was down from the year 2000 to 2002, and then again from 2007 to 2009. Few retirees can afford to wait out protracted down markets.

Add to this situation concerns about inflation and greater longevity, and it's no wonder investors are worried!

Strategies for maintaining sufficient retirement funds

Even though the current financial situation sounds troubling, you can take steps to proactively navigate it. Over many years, we've helped clients plan for and enjoy successful retirements, even in challenging circumstances. In fact, the majority of our clients do not have a traditional pension plan and must rely on their savings to meet their retirement needs.

Through these experiences, we've identified six strategies that have proven particularly useful for maintaining sufficient retirement funds.

And while there are no absolute guarantees in life, these strategies might help you as well.

1. Set your retirement draw rate

The biggest factor in determining your financial circumstances in retirement is your draw rate.

Your draw rate is your annual living expenses expressed as a percentage of the value of your portfolio. The calculation looks like this:

living expenses / portfolio value = draw rate

"If you want to be wealthy, live below your means."
– Paul Merriman

The lower your draw rate (i.e. the lower the percentage of your portfolio you spend each year), the better.

For many years, the rule of thumb was that a draw rate of four percent or less was sufficient for a successful retirement. But given the current low level of interest rates, this rule of thumb has been revised down to three percent.

2. Develop a financial plan

Once we have your draw rate and other financial details in hand, we use them to guide future decisions, such as how much you'll need for retirement, the timing of your retirement and the benefits of working longer or spending less.

A financial plan also allows us to identify a target rate of return that's sufficient to cover the draw rate, while taking into account inflation and taxes. We can also plan for other long-term goals, such as estate wishes.

Naturally, the sooner we can put together a financial plan for you, the better. The more distant your estimated retirement date, the more we can make sound financial decisions now that will positively impact your portfolio for the future.

3. Match portfolio yield to your draw rate

Your portfolio yield is the total of your interest and dividends expressed as a percentage of your portfolio value:

(int + div) / portfolio value
= portfolio yield

The goal is to match your portfolio yield to your draw rate as closely as possible, because the portfolio yield is highly predictable. The more your portfolio yield can cover living expenses and taxes in retirement, the less reliant you'll be on the price appreciation of your financial assets.

Match your portfolio yield to your draw rate as closely as possible.

NOTE: beware of investment products that set an artificially high "distribution." Distribution is different than yield and includes return of your own money!

4. Set up regular withdrawals to cover expenses

Scheduling regular portfolio withdrawals to cover expenses accomplishes two things: First, you can relax knowing that you have a regular amount going into your bank account (similar to receiving a paycheque).

Second, regular withdrawals help average out ups and downs in your portfolio. They also allow more time for the accumulation of dividends and interest.

5. Control for volatility

Having volatility under control avoids the problem of having to sell your investments at low values in order to meet your cash flow needs. Controlling volatility is especially important when your portfolio yield doesn't fully cover your retirement draw rate.

We have a variety of low volatility strategies we can employ. The exact strategies we choose will depend upon your unique needs and situation.

What if your draw rate is above three percent?

So far, all of the strategies we've discussed apply to all investors, regardless of their draw rate.

But if your draw rate is above three percent, then we would apply an additional strategy to help ensure a successful retirement.

6. Make tactical withdrawals

Tactical withdrawals are a more active method of drawing from your portfolio. They're timed to make the most of portfolio returns.

If you're still feeling panicked about your retirement, take heart.

For example, after a period of strong portfolio growth, we might choose to harvest portfolio gains, in case portfolio performance later declines. In some situations, we'll provide a year's worth of cash flow up front and then replenish this amount after times of portfolio strength.

In addition, we might separate expenses into basic requirements and discretionary or periodic spending. We then set withdrawal rates to satisfy basic needs on a monthly basis and use tactical withdrawals to meet other expenses (e.g. property taxes, holidays, etc.) when the timing is right.

Take proactive action, and take heart

This isn't an exhaustive list of the strategies we can employ to help you enjoy a successful retirement. Depending on your unique circumstances, we have many more to choose from. That is why we work closely with you to develop a detailed and customized financial plan.

If you're still feeling panicked about your retirement, take heart. Yes, sometimes tough decisions and tradeoffs need to be made. But it's better to be informed and take proactive action than simply hoping for the best.

And while things may seem overwhelming at this stage, don't give up. We firmly believe that a natural simplicity underlies even the most complex situations—including retirement planning. As portfolio managers, we've seen elegant and workable solutions emerge from seeming chaos again and again.

By working together, we can uncover this natural simplicity – and follow it through to a successful future.