

Volume 29, Issue 1**Research Announcement****Sustainable withdrawal rates of retirees: is the current economic shock a cause for concern?**

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Abstract

A sustainable standard of living at retirement is an issue of great importance for most retirees and is certainly a major consideration in the allocation of client portfolios for private wealth managers. This study uses past equity returns and a thirty year rolling average forecasting method to determine the safe withdrawal rates for retiring households between 1980 and 2008. This time period is chosen because it captures the market shock at the beginning of this millennium as well as the global economic downturn of 2007-2008. The results of this study indicate that while 3% and 4% withdrawal rates are sustainable in most cases the 5% withdrawal rates are not sustainable given the conventional 60%-40% allocation approach followed by most practitioners. However, diversification of the portfolio to 30% large cap, 30% small cap and 40% intermediate bonds makes 5% withdrawal rates sustainable for 40 years or more.

Completed draft available on request from:

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