

You Will Likely Run Out Of Money

As your financial adviser, I see it as my professional duty to raise issues I deem important. Some of these are difficult to bring up, but it is critical to our long-term relationship that I always share the unvarnished truth with you.

In retirement, there are only two real-life financial outcomes. These are:

1. The money will outlast the people (the desirable outcome).
2. The people will outlast their money.

We try all we can to help clients ensure that the money will outlast them. We do this by investing their assets appropriately and helping them control their expenses.

Investing Rule of Thumb

Investing theory (based on sound research) suggests that if you draw around 4% of your invested capital each year (allowing for annual inflationary increases), you will likely not run out of money. This amount is considered "sustainable", meaning it can be done for at least three decades (an average two-person retirement).

Although the research is sound, if we were to be more cautious and start with a 3% withdrawal rate, it is even more likely that your money will last.

To translate these examples into simple terms:

- 1. On £100 000 investable assets, a 4% sustainable withdrawal rate = £4,000 per annum.**
- 2. On £100 000 investable assets, a 3% sustainable withdrawal rate = £3,000 per annum.**

The above rule remains a guideline only, and adjustments based on life and investment market circumstances are always possibilities.

Our Concern

You are currently withdrawing more from your investment capital than is sustainable under normal market circumstances.

This means that there is a very real possibility that you will run out of money to fund your lifestyle.

When your invested capital (Pensions, ISAs, general accounts etc.) is depleted, other options may be available to help fund your lifestyle. The two most common strategies are:

1. Downsizing your house (only if this allows you to clear some cash), or
2. Doing an "equity release" mortgage on your home (which makes capital available to you while remaining in your home).

While these are "last resort" options, one of them may need to be followed if it allows you to maintain your desired lifestyle.

It is important to me that my clients aren't doing anything which may be financially destructive, without them knowing it. I understand that you need to maintain your lifestyle, but I wanted to draw your attention to the danger of continuing on your current trajectory. My professional opinion is that your current withdrawal strategy is unsustainable and will likely result in your pots running dry.

We will update your financial plan each year, including reviewing your withdrawal strategy. I will endeavour to do my best to help you navigate this challenge. If, before then, you are ready to review your withdrawals, please feel free to contact me.