



PARTICIPANT PERSPECTIVES



IS THE 4% SPENDING RULE STILL VALID?

As you get closer to retirement, you'll want to think about a withdrawal strategy. While a 4% annual withdrawal rate is often used, you may want to consult a financial professional to see if this strategy would work for you.

You may spend the majority of your working years setting money aside in your retirement plan and managing that money through every type of market boom and bust. When you draw close to the finish line, you'll still have a few important decisions to make. Chief among them will be how much to take from your retirement account each year.

You'll want to ensure that you don't withdraw too much from your account in the early years of your retirement and potentially threaten your financial security for your remaining retirement years. Finding an appropriate withdrawal strategy can be difficult, but it is critically important.

SYSTEMATIC WITHDRAWALS

One often-used strategy is to start with a 4% annual withdrawal rate and then adjust the dollar amount annually

to keep pace with inflation. The goal of a systematic withdrawal plan is to help prevent depletion of your retirement savings in the early years of retirement. If your portfolio earns at least as much as you withdraw, your principal will remain unchanged or grow over time. Of course, there are likely to be years when the stock and bond markets are down, and your portfolio earns less than you withdraw, depleting your principal. Although systematic withdrawals are relatively easy to implement, it's critical to choose your withdrawal rate and investment mix carefully since both factors will impact how long your money will last.

MOVING THE GOAL POST

You should be aware that the traditional 4% withdrawal figure has undergone some reevaluation.* Recent research from Morningstar suggests that people retiring now who want to ensure that their savings will last should spend no more than 3.3% of their savings in the first year of a three-decade retirement and adjust for inflation after that.

According to the researchers, the 4% strategy would have enabled investors holding a portfolio composed of 50% stocks and 50% bonds to make their money last over the vast majority of 30-year retirement periods between 1926-2020. They say that this may no longer

be a workable strategy as future returns from stocks and bonds are expected to be lower. The researchers simulated future returns over a 30-year period and found that in 25% of the simulations, a half-stock, half-bond portfolio would run out of money if withdrawals stayed at 4%.

There are alternatives to systematic withdrawals. For example, some retirement experts recommend varying your portfolio withdrawals in response to market moves—taking more out of your retirement savings when the markets are up and less when they are down. This approach is more complex, but might be one you can discuss with your financial professional.

THE BIG PICTURE

Before you decide on an appropriate withdrawal strategy, you may want to take a step back, look at the larger picture, and ask yourself these questions:

What do I really want out of retirement? Take an honest and realistic look at what you want to do during your retirement. If you are leaning toward an active retirement that includes travel, it's likely that you will need more money than someone who does not wish to travel. Where you plan to live in retirement is another important consideration. Whether you intend to remain in your current home, downsize in your current community, or move elsewhere will have an impact on how much money you will need in retirement.

What other retirement expenses might I face? You will still have a range of basic living and discretionary expenses in retirement. Basic living expenses include housing expenses, such as energy, utilities, maintenance, property taxes, condo fees, and mortgage and rent payments. They also include transportation expenses, such as car payments, gasoline, and repairs. Groceries, insurance premiums, and income taxes are also expenses you will have to consider. In addition to travel, discretionary expenses include recreational activities, gifts, and entertainment.

When can I afford to retire? You can do a rough estimate of whether you will have enough income to cover your projected expenses in retirement. If your numbers fall short, you may have to consider working longer than you'd expected or reducing your planned spending when in retirement.

How you approach a retirement income strategy will depend on your personal situation. You may benefit from

consulting with a trusted financial professional to help you determine and implement a strategy that suits your needs.

* "The 4% Retirement Rule Is in Doubt. Will Your Nest Egg Last?," *The Wall Street Journal*, 11/22/2021.

AND TO MY EXECUTOR, I LEAVE MY PASSWORDS

There could be problems when you neglect to leave login information for your digital assets to your executor.

What would the consequences be if, after your death, no one could access the information you have stored electronically? If you've protected your accounts or files with passwords, it could easily happen.

Digital communication has changed the way we manage our personal, financial, and professional lives. It has also created new challenges for estate planning. Consider, for example, an Internet business left in limbo because the owner made no provision for accessing accounts. Running the business—or even making customers and creditors aware of the situation—would be problematic without access to the owner's digital records.

But business accounts and records aren't the only potential casualties. Personal email, address books, photo libraries, and financial information are also at risk of being lost if the decedent hasn't shared passwords or designated someone in their will to have access to the records.

The legal treatment of digital assets remains a problem for the courts. Meanwhile, it's important to revise your estate planning documents to include passwords and authorize access to your online and other protected computer data.

A CHECKLIST FOR YOUR DIGITAL ASSETS

- Determine what and how valuable your digital assets are.
- Give your executor or personal representative instructions for locating them.
- Share your passwords with the person you've designated to have access, and/or include a list with your estate documents.

- Instruct your representative to delete files containing sensitive information.
- Make provisions to renew business URLs after your death, so they won't be lost.
- Plan for the disposal or transfer of digital assets just as you would for tangible assets.

IS THERE A PLACE FOR MUNICIPAL BONDS IN YOUR PORTFOLIO?

Consider whether municipal bonds would be a good investment option to add to your portfolio.

Municipal bonds are issued by states, cities, counties, and other governmental entities to raise funds for a variety of projects. Building or expanding water treatment plants, airports, municipal housing, and governmental offices are some of the projects typically funded by municipal bonds.

Investors who seek opportunities to develop a steady income stream while limiting the tax impact on that income often include municipal bonds in their portfolios. Unlike income from other securities, interest on municipal bonds is generally exempt from federal income taxes. Moreover, interest is often exempt from state income taxes for residents who live in the state issuing the bonds.

Municipal bond interest rates are usually lower than comparable taxable bond rates. However, the tax-exempt feature of municipal bonds can mean that, after considering taxes, you could earn a better return on a municipal bond than you would from a higher yielding taxable bond. For example, a 5% yield on a tax-exempt

municipal bond is equivalent to a 7.69% yield on a taxable bond for an investor in the 35% tax bracket. The higher your tax bracket, the greater the potential tax benefit gained from investing in a municipal bond.

OTHER ADVANTAGES

Municipal bonds offer other potential advantages:

- A predictable income stream
- Marketability if you have to sell your bonds before they mature
- A wide range of choices regarding issuer, quality, and geographic location of issuer

RISKS

Credit quality is an important consideration for bond investors. If you find a municipal bond with a higher-than-average yield, take the time to review the credit rating of the issuer. Very often, bonds with lower credit ratings offer higher yields because of the added risk to an investor's principal.

In addition, you need to understand that municipals, like other bonds, are subject to interest rate risk. Changes in interest rates affect a bond's market value. Rising interest rates on newly-issued bonds reduce the market value of lower rate older bonds. Conversely, falling rates lift the value of older bonds paying higher rates. That means that if you opt to sell a municipal bond before it matures because interest rates on newly issued bonds have gone up, it is likely that you will have to sell the bond for less than what you paid for it.

This general overview is not meant to be tailored investment advice. Your financial professional can work with you to determine if municipal bonds may be a good fit for your portfolio.

Cornerstone Advisors Asset Management, LLC
 www.cornerstone-companies.com
 participantservices@cornerstone-companies.com
 (610) 694-0900

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC. Investment Advisory Services are offered through Cornerstone Advisors Asset Management, LLC. Cornerstone Advisors Asset Management, LLC and Cornerstone Institutional Investors, LLC are independently owned and operated.

This information is for general and educational purposes and not intended as legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third-party sources are believed to be reliable but not guaranteed.

© Copyright 2023 M Financial Group. All rights reserved. #5642986.1 Expires 4/2025

M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | mfin.com