Wade Pfau has a white paper posted at FA Mag that pretty much blows up the 4% (retirement withdrawal rate) rule or attempts to anyway. Pfau lists several different factors for why 4% may prove to be too optimistic going forward including longer life spans (the 4% rule was originally conceived with a 30 year retirement and now 40 years may make more sense), the prospect for lower equity market returns (which may or may not happen) and historically low interest rates which we know we have but who knows how long they will remain low and various fees related to investing. No mention of taxes though.

Pfau looks at all sorts of portfolio permutations and for some context he finds that a 100% allocation to equities a safe withdrawal rate for a 30 year time horizon is 3.38% and 2.74% for a 40 year time horizon. With a 40% allocation to stocks the 30 and 40 year sustainable withdrawal rates are 2.1% and 1.49%.

1.49%? Get a grip it is not that dire for a whole bunch of reasons. For a little context of my own, a 4% withdrawal rate invested in cash at zero percent will last 25 years. That is not a recommendation obviously as 4% of $X in 2040 would be worth a lot less than today (could easily be a 50% inflation haircut) but that point has helped conversationally to make the point.

A 4% withdrawal rate can still work but it has always been the case that 3.5% would be better and 3.0% would be better still. It is also not a good assumption to think you’ll never spend principal. If you have taxable accounts, a Roth IRA and a traditional IRA it likely will make sense to deplete an account for maximum tax efficiency and then move on to the next one which as I have said before will be uncomfortable at first.

A much bigger threat to financial plan success in my opinion are human factors related to poor decision making (panic selling after a large decline) and spending habits that are clearly unsustainable. Some folks will do all the right things but have some sort of bad luck (grown children who get into trouble or some sort of health event that requires going deep into savings) but like market results, bad luck is beyond any reasonable control.

Also missing was the idea that people adapt to whatever their financial reality becomes, many people do anyway. I’ve written hundreds of posts about people I’ve encountered who have adapted one way or another as well as sharing articles from others that also address different ways to adapt.
Collectively people seem to be far more in tune with their retirement prospects than before the financial crisis. Perhaps the reason for this is the increased awareness of how far behind many Americans are in saving for retirement comes from the various studies with shockingly low numbers for average savings rates and average retirement balances.

The job of an advisor is to help devise a realistic plan (a person with no savings have very little shot of retiring in ten years with 70% replacement income) and when appropriate err on the side of caution. This accounts for why people's retirement numbers tend to be high. I agree with this approach as having too much money is a much better conversation to have than the one about not having enough money.

The risk for most people reading this post is not having nothing for when they want to retire but not having enough. Someone whose plan calls for $800,000 and who ends up with $700,000 is not in a disastrous situation, they could still run out of money if they don't cut back some but that would most likely be of their own making (barring some extreme, unpredictable event) but this situation really just calls for some modest changes in spending.

Accumulating $400,000 versus an $800,000 plan doesn't have to be ruinous but will require some serious plan changes (likely that planning occurs along the way, hopefully no one wakes up on their first day of retirement only to see they've only got half of what they think they need) which could include not retiring when planned, taking up some sort of post retirement endeavor to supplement income, doing a serious downsizing (in terms of housing and spending) or some combination of all of the above.

I believe in the concept of having a number (or dollar range) but it is just a goal that is either reached or not and just as coming up short does not have to result in disaster, neither does hitting that number ensure success. If you've ever had some sort of financial trouble whether serious like losing a house or not so serious like running out of money three days before pay day when you were 23, you obviously figured it out and are alive today reading this post. Retirement should be no different, you'll have to figure out how to overcome any retirement obstacles and one way or another, you will.