

## Marriage of 4% withdrawal rule & RMD method brings happy results for retired folks!

I've arranged a simple marriage between the 4% rule and the IRS's Required Minimum Distribution (RMD) method. It gets the best from both methods and does not have the bad points of each. That makes a great match! And you don't have to wait till 70 ½ to use it.

The 4% rule has several distinct flaws. The first year has a budget of 4% of last year's ending savings balance, but in each subsequent year this budget will increase with last year's inflation. It does not take into account what happened to savings from good or bad market conditions. Retirees can run out of savings before running out of life in poor market conditions. Further, they won't benefit from a stretch of good market performance.

The RMD method has a different kind of problem. It is so responsive to market conditions that budgets often change precipitously. And it pays no attention to inflation at all.

Years ago I used to have an Autopilot program on [www.analyzenow.com](http://www.analyzenow.com), but it turned out to be too complex for some to use. However, many people loved it and complained when I took it off the site. In this article I've really simplified the Autopilot—and it does extraordinarily well. Those who loved my Autopilot program will relish this even more!

The new Autopilot, like the old one, reduces the year-to-year budget changes that are so hard to accommodate. It also increases next year's budget when investments have done very well, something the popular 4% rule doesn't.

Retirees (and soon to retire) don't need a computer, only a scratch pad. Ma and Pa can set next year's budget at the kitchen table. All you have to do is follow the steps below:

1. Divide last year's ending balance of the total of your retirement savings by the RMD from the table below.

**Required Minimum Distribution Table**  
IRS Publication 590

Age	RMD	Age	RMD	Age	RMD	Age	RMD
40	53.6	56	38.7	72	25.6	88	12.7
41	52.7	57	37.9	73	24.7	89	12
42	51.7	58	37	74	23.8	90	11.4
43	50.7	59	36.1	75	22.9	91	10.8
44	49.8	60	35.2	76	22	92	10.2
45	48.8	61	34.4	77	21.2	93	9.6
46	47.9	62	33.5	78	20.3	94	9.1
47	47	63	32.7	79	19.5	95	8.6
48	46	64	31.8	80	18.7	96	8.1
49	45.1	65	31	81	17.9	97	7.6
50	44.2	66	30.2	82	17.1	98	7.1
51	43.3	67	29.4	83	16.3	99	6.7
52	42.3	68	28.6	84	15.5	100	6.3
53	41.4	69	27.8	85	14.8	101	5.9
54	40.5	70	27.4	86	14.1	102	5.5
55	39.6	71	26.5	87	13.4	103	5.2

2. In the first year you use this calculation, multiply last year's ending balance by 4%. In subsequent years, multiply last year's Autopilot budget by (1 + Last year's inflation %).
3. Divide the sum of step 1 plus step 2 by 2 to get the new Autopilot budget.

That's all there is to it! You'll get the kind of results reported in The Wall Street Journal's MarketWatch.com: <http://www.marketwatch.com/story/put-retirement-savings-withdrawals-on-autopilot-2013-07-24?pagenumber=1>

Professional planners, more aggressive investors, and those with complex situations can tailor results to their view of the future by substituting their results for step 1. The RMD calculation is generally conservative in two respects: The RMD corresponds to a life-expectancy that is (wisely!) beyond the point where 50% of the people of that age will die, and it has the fundamental assumption that the return equals inflation. In actual practice, few retirees actually get much better returns. If you have any doubt about that, try the return calculator on [www.analyzenow.com](http://www.analyzenow.com).

Couples with a spouse that is more than ten year's younger should go to IRS Publication 509 to get their RMDs. Those who are over 70 ½ should take their full RMD distribution even if the Autopilot shows their budget should be less. Simply deposit the RMD to a taxable account and then take out the Autopilot amount. Those retirees who are under 59 ½ should go to IRS Publication 590 or a professional to get the rules for taking money out of an IRA or employer's savings plan if they have insufficient savings in other than qualified accounts.