The 4% Rule and The Rule of 25

Calculating worksheet

Then: *The 4% Rule.*

William Bengen's landmark 1994 research suggested most people could...

- Retire at age 65, if a person were to:
  - Withdraw 4% of their portfolio's balance in the first year of retirement
  - Continue to increase the withdrawals for inflation throughout retirement
- Resulting in 90% chance of having money remaining 30 years later...at age 95*

So, if someone had $1,000,000 in their retirement account, they could consider withdrawing $40,000 in their first year of retirement:

$1,000,000 X 4% = $40,000

Now: *The Rule of 25.*

That's a very helpful rule if a person is at-or-near retirement! Basically, if one already knows how much money they saved, this rule estimates how much they can spend. But what if they have some time between now and retirement?

If one had a pretty good idea how much they'd need to spend in their first year of retirement, and they'd like to estimate how much they should have saved, then they simply need to run the 4% rule backwards.

It's easy! If a person knows they'll need to spend $40,000 in their first year of retirement, simply multiply by 25 and they'll know they need $1,000,000.

$40,000 X 25 = $1,000,000

*Based on Bengen's original October 1994 article from the Journal of Financial Planning: http://www.retailinvestor.org/pdf/Bengen1.pdf

The "4% Rule" and the "Rule Of 25" are approximate guidance. Please reference other financial tools for more specific results.

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Use this simple calculator to estimate retirement savings using The Rule of 25!

Enter: estimated annual expenses during first year of retirement**

Enter: guaranteed retirement income (pension, etc.) to be subtracted**

Amount client plans to withdraw from portfolio in first year

x 25

Multiply the result by 25

Estimated amount client should have saved for retirement

**In order for the calculation to work, the "Guaranteed retirement income" needs to be less than the "Estimated annual expenses." If your calculation results in a negative number, either your client is already well-prepared for retirement, or a value has been mis-entered.

Use this simple calculator to estimate retirement savings using The Rule of 25!

EXAMPLE

60,000

Enter a value for estimated annual expenses during first year of retirement**

20,000

Enter a value for guaranteed retirement income (pension, etc.) to be subtracted**

40,000

Amount client plans to withdraw from portfolio in first year

x 25

Multiply the result by 25

$1,000,000

Estimated amount client should have saved for retirement