How Withdrawal Rates Impact Your Portfolio in Retirement

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Many people spend years preparing for retirement by saving and investing, but planning shouldn't stop once the paychecks do. Transitioning from earning income to withdrawing it from your portfolio is a major shift with a new set of risks and decisions. This period, known as the distribution phase, requires careful thought. How much you withdraw each year can have a bigger impact on long-term financial security than many people realize. Without a well-structured strategy, even a sizable retirement account can be depleted faster than expected.

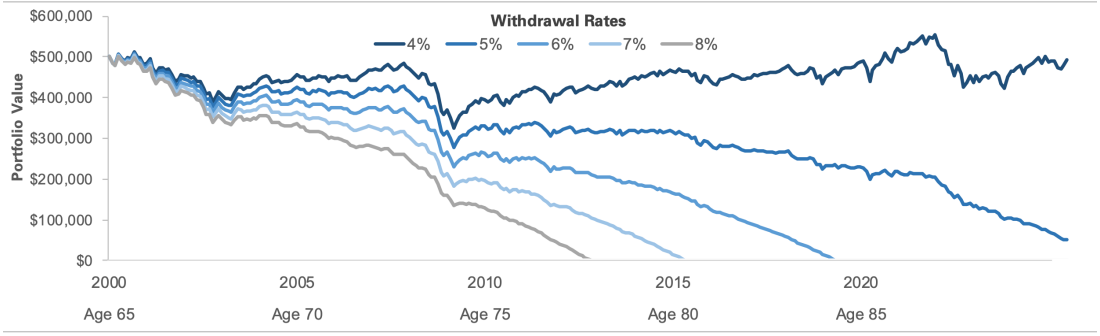
The chart below shows how different withdrawal rates can impact a retirement portfolio's lifespan. It assumes an individual retired in 2000 at age 65 with $500,000 and started taking monthly withdrawals. Each line reflects a different withdrawal rate between 4% and 8%, showing how the portfolio fared through age 85. While all scenarios start at the same point, the paths quickly diverge, especially during periods of market volatility. The chart illustrates how a retiree's withdrawal strategy can determine whether the portfolio lasts or runs out.

The message is clear: higher withdrawal rates tend to exhaust a portfolio sooner, while lower rates can extend its life. In this example, withdrawing 7% or 8% caused the portfolio to run out of money before age 85. In contrast, the 4% and 5% withdrawal rates helped the portfolio weather market declines. The 4% strategy not only preserved the portfolio but grew it over 20 years, showing how compounding can work even during retirement. No strategy can eliminate market risk, but a smaller withdrawal rate can extend the portfolio's life and reduce the risk of outliving your savings. Taking a more conservative approach in the early years of retirement gives your portfolio time to recover from short-term losses and grow with the market.

A thoughtful withdrawal strategy is an important part of retirement planning. It's not just about how much you've accumulated, but how you manage it. There's no one-size-fits-all approach, and the method you start with doesn't have to be permanent. Fixed withdrawal rates can provide a good starting point, but many retirees may benefit from more flexible approaches. For example, you could adjust withdrawals based on market conditions, taking smaller distributions in down years and larger ones in strong years. Another option is the bucket strategy, which divides assets into short-, intermediate-, and long-term segments. By keeping a few years' worth of expenses in cash or short-term investments, you can avoid selling stocks during major market declines, such as those in 2008 or 2020. This gives long-term investments time to recover and can help create a steadier income stream over time. Everyone's retirement looks different. Our goal is to help you create a withdrawal strategy tailored to your unique needs and goals when that time comes.

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Figure 1 – Measuring the Impact of Various Withdrawal Rates on a Retirement Portfolio



Disclosures: Past performance is no guarantee of future results. This is a hypothetical illustration for educational purposes only and assumes a initial portfolio balance of $500,000 as of January 1st, 2000. The portfolio is invested in a 50/50 portfolio of stocks and bonds. Each monthly withdrawal is adjusted annually for inflation as measured by the consumer price index, and the portfolio is rebalanced at the end of the month. Performance is based on total returns including dividends reinvested. Data as of 7/31/2025.

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