JPMorgan proposes “dynamic decumulation model”

By Kerry Pechter *Fri, Mar 7, 2014*

"Greater lifetime income, through Social Security, pensions and/or lifetime annuities, allows individuals to increase both their withdrawal rates and equity allocations," says the adviser to individuals, institutions and financial intermediaries.

“Breaking the 4% Rule,” a new white paper from J.P. Morgan Asset Management, suggests that “investors and their financial advisors should look beyond the static rules of the past when seeking to achieve stronger results from their retirement income withdrawal strategies.”

In its introduction, the 34-page paper asserts that:

- **Maximizing lifetime utility (i.e., potential derived satisfaction) serves as a more effective benchmark of retirement withdrawal success than typical measures, such as probability of failure.** Focusing on utility offers a way to quantify how much satisfaction retirees receive from their portfolio withdrawals. This can help potentially increase investors’ level of income when they are most apt to enjoy their retirement dollars, while still avoiding the risk of premature portfolio depletion.
- **A dynamic approach to managing withdrawals and asset allocations provides a more effective use of retirement assets than traditional approaches.** Adapting to changes in market conditions and investors’ specific situations over time can help maximize the expected lifetime utility generated by retirement assets. This type of dynamic strategy may help provide greater payout consistency and reduce the likelihood of either running out of money or accumulating excess wealth that is unlikely to be used by the investor.
- **Age, lifetime income and wealth all provide key insights into how to adjust investors’ withdrawal strategies throughout retirement.** Holding all other factors constant, higher initial wealth levels suggest individuals lower their withdrawal rates, while also increasing their fixed income allocations. Greater lifetime income, through Social Security, pensions and/or lifetime annuities, allows individuals to increase both their withdrawal rates and equity allocations. Increasing age allows individuals to increase their withdrawal rates, while also decreasing their equity exposure.