Post-Election Tax and Market Forecast & the “4% Rule”

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The U.S. mid-term elections were held on November 4, 2014. The Republicans regained the majority of the Senate in the 114th Congress, which started on January 2015, for the first time since January 2007. Of the current Senate seats: 54 are held by the Republican Party; 44 are held by the Democratic Party, and 2 are Independent. In the House of Representatives, the Republicans hold 247 seats and the Democratic Party holds 188. However, Democrat President Obama has vowed to veto any bill put before him that he does not like. So, we have an impasse. The good news is that the federal tax law is not likely to change.

Whatever will happen in future national elections, the conventional Rules of Money have changed. For decades, Wall Street brokers would tell the public “You can always earn 10 percent in the stock market.” Example: if you were able to accumulate $1,000,000 of savings by the time you retired, then you could withdraw $100,000 per year, every year, for life. However, using the S&P 500 calculator, http://dqydj.net/sp-500-return-calculator, the annualized S&P 500 return from January 1, 2000 through March 31, 2015 has been 2.520%. If one reinvests all dividends, then it is 4.448%. This is much lower than the “10% withdrawal rule”.

William Bengen, was the CA financial advisor who popularized the “4% Rule”. One can withdraw 4% from your total life savings in the first year of retirement, and then withdraw that dollar figure, adjusted for inflation, every year afterwards. One is supposed to have a high chance that your money will not run out before you die. However, he recently said: “I’m not sure 4% is wrong, yet. But we could have low returns for a long time, which could threaten it. And I suspect the prospect of much higher inflation is an even greater threat. We’re in uncharted territory. It’s very hard to predict what will happen.” Source: ***Revisiting the 4% Rule,*** by Reshma Kapadia, 11-9-2013 Barron’s. Note: Bengen’s initial research, first published in 1994, assumed that your portfolio was 50% stocks and 50% bonds and analyzed returns going back to 1926 in 30-year time spans.

However, returns have been much lower since January 1, 2000, both in terms of stock market and bond returns. According to Wade Phau, a professor of retirement income at the American College, a 4% withdrawal has just a 50% chance of working. He suggest a 3% withdrawal, but if your funds are mainly in bonds, you need to reduce that rate. T. Rowe Price suggests a 2.8% rate. People hoped to get to the Holy Grail of $1 million savings. They never imagined withdrawing only $28,000 in their first year of retirement. If they don’t have a guaranteed pension, which few Baby Boomers have (who are not government workers), they will have to survive on Social Security and their life savings. The average monthly Social Security check received in 2014 by 39 million retired workers was $1,294; $1,146 received by 8.8 million disabled workers; and $1,244 by 6.2 million Survivors. Adding $28,000 in retirement hardly gives one a luxurious lifestyle. Can you imagine what it is for those who have NOT saved $1 million?

Conclusion: until elected members of both branches of Congress and the President are truly fiscal conservatives, there's little chance of meaningful legislation that will promote sustained, substantial economic growth and cut wasteful government spending. Without this, future market returns are unlikely to improve on a long-term basis.

Free Seminars: Sat. 5/2/2015, 10:30 am – 12:30 pm, ***"How you Can Maximize Your Social Security & Other Retirement Income!"***; and Thurs. 5/7/2015, 4:30 – 6 pm, ***"Dr. Wong's Post-Election Tax and Market Forecast"***. Both will be held at the Desert Foothills Library, 38443 N. Schoolhouse Road, Cave Creek, AZ 85331. RSVP at (800) 955-1408.

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