What do you do if you have large future inflow (or outflow) to your nest egg? How do you analyze this situation?

The simple assumption in the book is "what you have is what you have." You don't plan on large future inflows to your portfolio from an inheritance or from insurance proceeds from a first-to-die insurance policy, as examples. Or large outflows.

If you have a more complex situation with inflows or outflows, you'll have to spend time with the details of FIRECalc (**www.firecalc.com**). It's the only Retirement Withdrawal Calculator I find that helps you understand the effect of a large future inflow or outflow on your Safe Spending Rate (SSR%) and Amount. Here's an example.

My friend John tells me his father-in-law is 87. When he dies, his wife will inherit a significant amount that will add to their nest egg. He's pretty sure of the amount, but the timing is obviously uncertain. Jon would like to know, "What can we now spend from our nest egg, knowing this inflow is coming?"

Let's assume Jon and his wife have $1.5 million now (Investment Portfolio after their Reserve; multipler = 1.5) and estimate an added $300,000 (in today's dollars) in some future year. To get to the answer, Jon needs to break the problem into two parts:

#1**)** What can we safely spend from our current portfolio ignoring the inflow? John uses the steps in the book. Let's assume he picked 24 years for "zero probability" of depleting based on his wife's life expectancy (see Chapter 4). That results in their initial SSR% of 4.00% or $40,000 per initial Investment Portfolio. His initial SSA is C$60,000.

#2) What added amount can we spend now when we estimate the amount and timing of $300,000 inflow? We have to use the Portfolio Changes feature in FIRECalc. You'll see that tab on the Start Here or home page.

1. Jon inputs the following on the Start Here page: Spending $60,000. Portfolio $1.5 million, Years 28 (his wife's life expectancy plus 4 years). He chooses "1926" on the Your Portfolio page and enters his percentage mix of stocks. Let's use FIRECalc's default for this example; let's also use FIRECalc's default for Investing Cost.) When he "Submits", he gets a "success rate" and therefore a probability of depleting his portfolio in the 28th year. As discussed in the book, this will equate to roughly 1-in-50 chance that John or his wife are alive then and fail to be able to take a full withdrawal for spending from their portfolio in the following year. (Chapter 4.)

When I input into FIRECalc for John (as of early May 2017), I get a probability of depleting of 6% (4 of 63 28-year cycles). (6.3% if I'm going to be really picky.) That point on the blade angle of our 4.00% SSR% hockey stick is our target, because we are confident that is going to represent 1-in-50 chances for all the years "thereafter". If we make changes to spending because of the inflow but hit that same 6% probability of failure target, we know we have picked the new, right stick (the new, right spending amount).

2. John can now work to see the effect of $300,000 inflow at some point in the future. (Let's assume that will not increase in real terms in the future.) He enters $300,000 on the page that opens under the Portfolio Changes tab. Let's assume he estimates that inflow in six years and enters the year for that. He hits "Submit." The new FIRECalc Results page shows a dramatic change. There's NO probability of failure well beyond 30 years: the Safe Spending Amount is obviously more than $60,000 per year. (The SSR% is greater than 4.00%.)

Jon increases spending in the Start Here box until he again finds the 6% percent failure rate at year 28. When I do that in this example, I get spending of $72,000: that results in the closest value to 6% probability of depleting in the 28th year. That's the right stick. John is really close to the answer: his SSA is close to $72,000.

3. John can iterate to judge the impact of different assumptions on amount (more or less than $300,000) and years (more or fewer than six years). For each case, he adjusts spending to get back to the 6% probability of depleting in the 28th year.

When I do this, I find the answer for spending does not change much with different inputs. (For example, if I pick $250,000 as the amount and add 4 more years, I get spending of $70,000 that hits the target of 6% probability of

depleting in the 28th year.) John can narrow in and pick what he judges as his proper initial SSA.

These same steps work if John assumed a large future lump payment from his portfolio in the future: he could find how much he had to reduce his SSA to account for the outflow.