

- CHAPTER 9 -**CAN YOU INCREASE YOUR
SAFE SPENDING AMOUNT?****IN THIS CHAPTER...**

- ★ You must recalculate periodically.
- ★ It's almost certain that you'll have "More Than Enough":
 - You won't be riding one of the horrible series of returns;
 - As you age, your applicable SSR% increases, and you need less portfolio value to support a given level of spending.

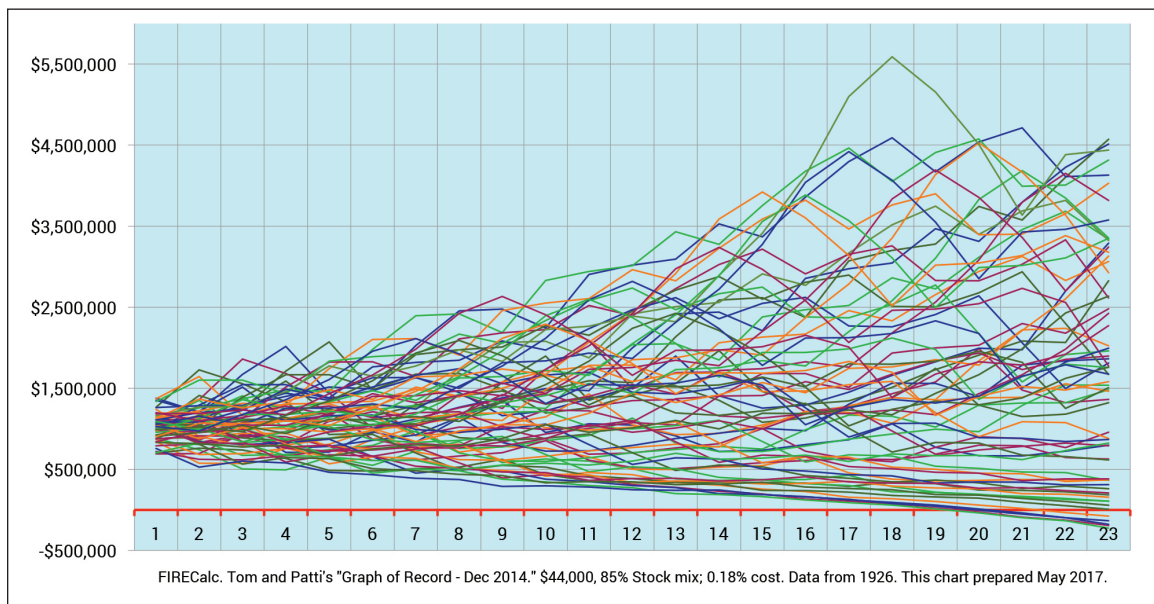
There are two reasons why you should recalculate to see if your Safe Spending Amount can increase:

1. First, you almost certainly won't be riding a horrible sequence of returns that drove your initial SSR% and SSA to a low level. Your portfolio value won't be tracking to depletion. As an example, FIRECalc shows that if Patti and I experienced an average sequence of returns, we would have C\$1.25 million in 2024 and C\$1.44 million in 2029 if we did not change our C\$44,000 spending.
2. Second, as we age, our game, unfortunately, gets shorter. The applicable SSR% increases, and its inverse (multiplier) decreases. This means we need less portfolio balance to support a given level of spending. For example, Patti and I needed \$1 million Investment Portfolio at the start of our plan for \$44,000 spending. If we never changed our initial \$44,000 constant-dollar spending, in 10 years, when Patti is 77 and I'm 80, we'd need about C\$750,000 for that same level of spending. When Patti is 82 and I'm 85, we'd need a bit more than C\$600,000.



Let's visualize what might happen in the future for our 85% stocks mix and Investing Cost of 0.18%. I show the results page from FIRECalc at the start of our plan in December 2014. I arbitrarily ran this graph for 23 years, which is Patti's life expectancy + four years. Let's assume I labeled this as our "Graph of Record-2014" and filed it away. (This is the same graph as 2-4.)

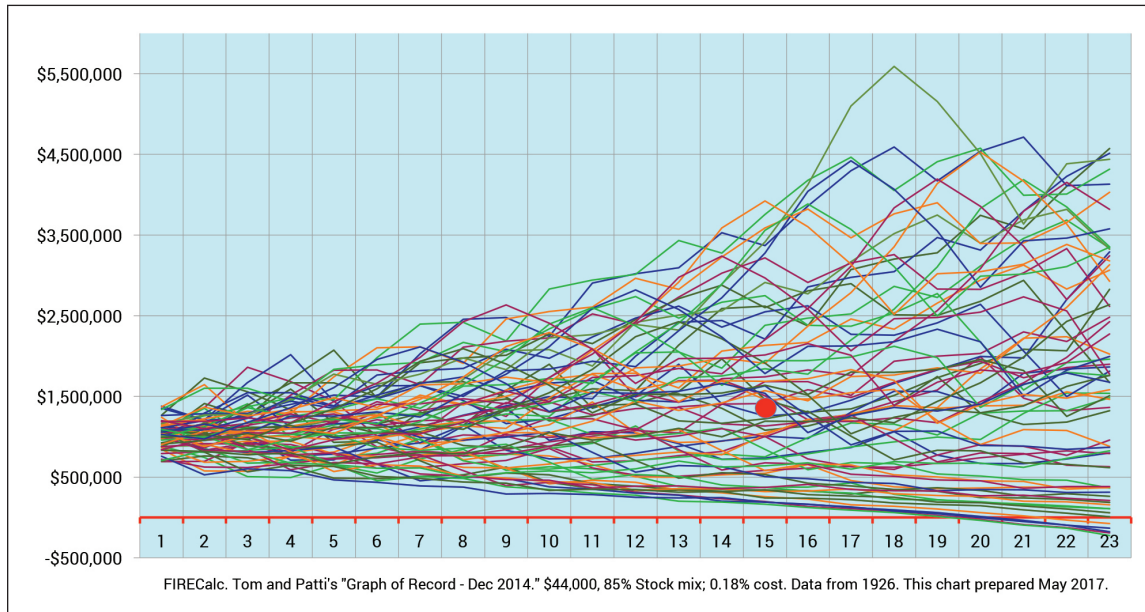
GRAPH 9-1
OUR GRAPH OF RECORD-2014



Assume Patti and I absolutely trusted that we had zero probability of depleting our portfolio for nearly two decades. We **never** paid attention to annual market returns. We **never** looked at our portfolio value at the end of any year. We just kept our constant-dollar spending at \$44,000 each year. (Somebody else rebalanced our portfolio after our withdrawal at the end of each year to get back to our design mix of 85% stocks.)

But at the end of 15 years – 2029 – before taking our withdrawal for spending for the upcoming year, we finally decide to look. Patti is 82, and I'm 85. FIRECalc tells us that at the 15-year mark for \$44,000, the average of all sequences of returns would be \$1.44 million in our original 2014 dollars. Let's assume that Patti and I rode that average sequence. I go to the file, pull out our Graph of Record-2014 and place a red dot at \$1.44 million at the 15-year mark. Graph 9-2 is my best shot at getting that red dot in the right place.

GRAPH 9-2
 OUR GRAPH OF RECORD-2014 WITH A DOT AT
 \$1.44 MILLION AT THE END OF THE 15TH YEAR



I'd look at this graph, and I'd first breathe a sigh of relief that we had not been riding a horrible sequence of returns. I can see we might have had a lot less (and a lot more). But I'd look harder at that red dot and say, "Dammit. We've been living off that same constant-dollar \$44,000 per year that we started with. We not only didn't deplete our portfolio, but we have lots more than we started with — \$440,000 more in original spending power — and now we don't have that many more years to live.

"I can see on the graph that we successfully ran the gauntlet of initially horrible returns years ago, and it looks to me that from where we are now, **none** of those original sequences of returns bend south and decline to zero at \$44,000 of spending.

"We could have spent more in the past, and clearly we can spend more now. But why the heck didn't we look at our nest egg EARLIER and figure this out? We were in better health and had more energy then. We could have done more and lived more. And now what do we do? How much more can we spend or gift now?"



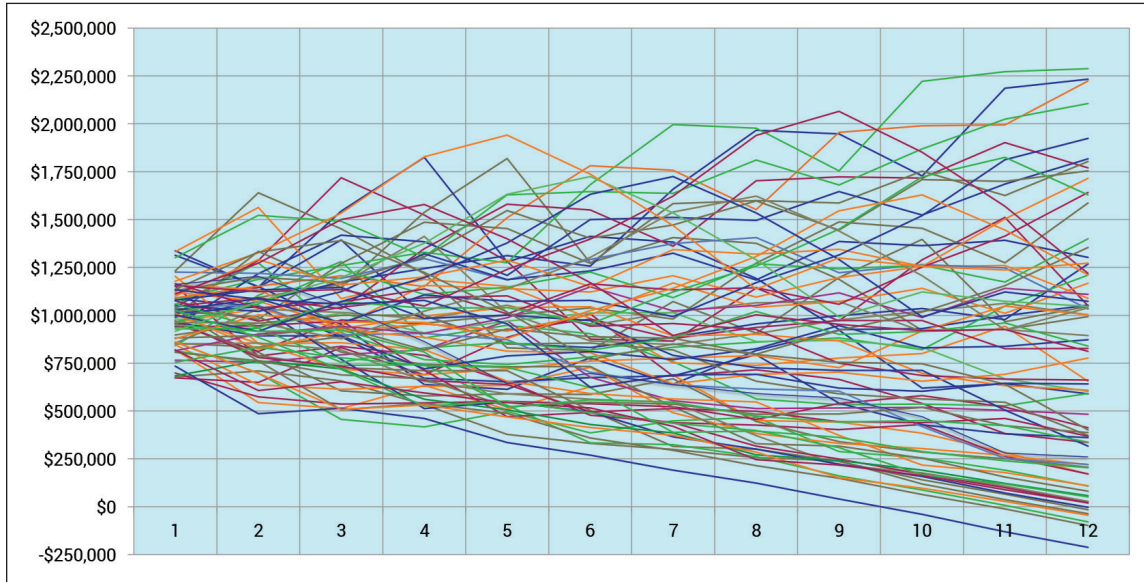
What do we do? We recalculate. I'd apply the same logic and steps we used in 2014 to find our SSR% of 4.40%. I applied that 4.40% to our Investment Portfolio to get to our Safe Spending Amount (SSA), or I could have used the inverse to find out how much we needed for a specific spending amount.

Let's do that now. I use the Vanguard calculator and find when Patti is 82, her life expectancy is eight years. (I'd be 85; mine would be five years.) I use the Table in Appendix D and find the applicable SSR% is 7.10%. That SSR% gives us zero probability of failure for her life expectancy and for the years thereafter no more than 1-in-50 chances that at least one of us would outlive and outspend our portfolio in any year.

I use that 7.10% to see if our current portfolio value would support more spending than the \$44,000 we have been spending all along. I multiply the 7.10% by \$1.44 million. That's about C\$102,000 per year, obviously WAAAAY more than what we've been spending! (I'd have to use our Multiplier to get to the grand total.) **That \$102,000 is about 2.3 times what we had been spending for 15 years.** This really would bug me. Why, why, why didn't we do this calculation a lot earlier to see if we could have raised our Safe Spending Amount?

We have enough portfolio value to justify using a higher SSR% — a shorter, more fun stick than our original choice. We can discard our prior Graph of Record and use the graph for 7.10% SSR% as our new Graph of Record. Here's our new "Graph of Record-2029," Graph 9-3, to put in the official file based on \$1 million starting portfolio value. I similarly show this graph for Patti's life expectancy + four years.

GRAPH 9-3
 OUR GRAPH OF RECORD-2029 THAT
 REPLACES OUR PRIOR GRAPH OF RECORD



(Let's just check on the years "thereafter" by looking at that last year on this graph. I use the Vanguard calculator again and find our "At Least One Alive" probability in year 12 [Patti's age 94, my age 97] is 31%; the probability of depleting a portfolio is 4% assuming we spent our Reserve and were not able to replace it; the joint probability of outliving and outspending our portfolio is 1.2% [31% times 4%]; we're getting close to 1-in-100 chances.)



I could have used that 7.10% SSR% differently. I could have used it to see how much More-Than-Enough we had relative to a desired spending amount. We'd use the inverse of 7.10% or 14.1 as a multiplier.

Let's assume Patti and I always were content with our \$44,000 constant-dollar spending, and in 2029 we planned to spend that in the future. We'd find that we would need \$620,000 ($\$44,000 \times 14.1$) as our Investment Portfolio. (Oh, heck, let's throw an added \$100,000 into the Reserve to make the total we need \$720,000.) We have \$1.44 million. We have nearly **\$720,000 More-Than-Enough** per starting \$1 million Investment Portfolio. (I'd have to use our Multiplier to get the grand total.) My reaction would be similar: we would have wanted to know this years earlier; while we may not have wanted to spend more, we would have had many opportunities to gift to those we care about.