Will Your Retirement Plan Be Successful?

How You Can Gauge the Likelihood

Are you preparing for retirement and expecting to spend a certain amount each month from your investments to supplement your Social Security benefits?

Or are you already in retirement and worried that a market downturn would reduce your ability to cover your living expenses or cause you to run out of money?

Regardless of your retirement situation, you need to be confident that your retirement plan should successfully meet your needs. So how can you know?

Measuring your return against a market benchmark like the S&P 500 won't tell you. Neither will comparing your plan's performance to an arbitrary return assumption, like 8%. What about if you generate enough to stay ahead of inflation? It still may not explain if you're on track to meet your needs.

Unfortunately, there's no way to know with 100% certainty. But there is a way to measure your probability of success. Luckily, you don't need to be a fortune teller to figure this out!

(Fortunately, you don't need to be a statistician either!) Instead, your Wealth Advisor at Motley Fool Wealth Management uses a statistical model to estimate how likely your plan will meet your goals.

Here's the inside baseball on how it works:

Based on a Monte Carlo simulation, the model predicts the likelihood of the desired outcome given the impact of different variables. Monte Carlo simulates thousands of possible scenarios to understand the implications of risk and uncertainty on the outcome. It helps you determine the probability of success of a specific set of inputs.*

For example, suppose you're planning for retirement and expecting to spend a certain amount each year. In that case, you might test your ability to meet that spending using a historical return expectation. Or, if you are worried about a downturn, you might test various lower return assumptions to see if your portfolio is at risk of running out of money. On the other hand, maybe you'll live longer than expected (a good problem). You can test the longevity of your plan to ensure your portfolio will last over more years.

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Let's walk through a hypothetical example:

Dan and Joann both just turned 65 years old and are concerned about having enough income to supplement their Social Security benefits. They have $600K in their IRAs and estimate their house is worth $300K. Luckily, they have no loans or other outstanding debt. Dan estimates his life span to be about 85 years old—another 20 years from today—since Dan's relatives lived to 83 years old, on average, while Joann expects to live to 87.

They are invested in a portfolio that is 66% stocks and 34% bonds, which historically has generated a 5.64% average annual return. They are interested in knowing if their current portfolio will provide the retirement income they need for healthcare and basic living expenses.

Our model generated the following probability of success for their current plan. Notably, the model factors an annual inflation rate of 2.25% per year.

Probability of Success

RETIREMENT

Planning Age	**Current Scenario**
Dan	85 in 2042
Joann	87 in 2044

GOALS

Needs	
Health Care Both Medicare Joann Alone Medicare	 $10,089 $6,451
Retirement - Basic Living Expense Both Retired Joann Alone Retired	 $40,000 $30,000
Total Spending for Life of Plan	**$1,157,597**

Estimated % of Goals Funded

Average Return	100%
Bad Timing	100%

Likelihood of Funding All Goals

ABOVE Confidence Zone

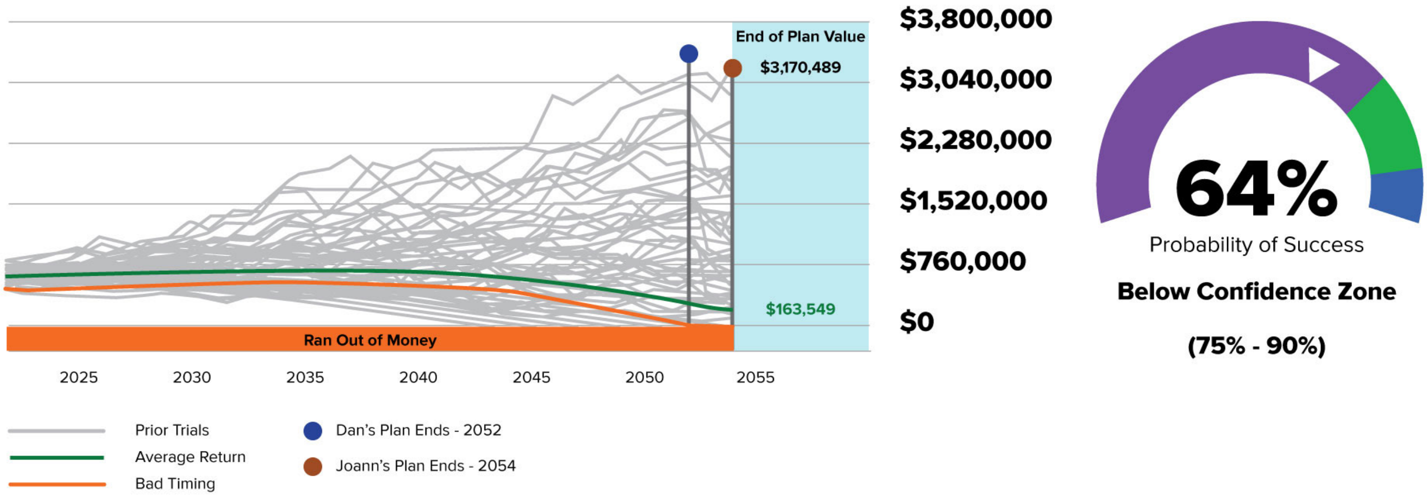
(75% - 90%)

The Probability of Success meter displays the percentage of trials from 1000 Monte Carlo trials that were successful in funding all the goals. We identify the Confidence Zone as the probability of Success between 75% and 90%. Source: MoneyGuidePro. See Notes on analysis for further disclosures.

The model shows that they have 96% probability of success, meaning there is a 96% likelihood of funding their financial goals with their current plan.

The model can also test what happens if Dan and Joann live longer. Say for example, they live 10 years longer than they projected (Dan to age 95 and Joann to age 97). In that case, their current plan's probability of success is 64%.

Portfolio Value



The graph shows the results for a 1000 Monte Carlo trials. The probability of Success meter displays the percentage of trials that were successful in funding all the goals. We identify the Confidence Zone as the probability of Success between 75% and 90%. Source: MoneyGuidePro. See Notes on analysis for further disclosures.

This type of testing is, we believe, the best way for investors to confidently assess whether their current plan can meet their goals. Measuring your return against a benchmark, a preconceived return notion, or the performance of your brother, sister, or neighbors' portfolios won't tell you if your retirement is on track.

If you are interested in understanding your probability of retirement success, reach out to your Advisor or visit foolwealth.com and start your investor profile today.

Disclosures

Notes on analysis

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