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How to make $1 million last

$1 million and you're set for retirement, right? Not so fast. Here are five key steps to make the most of your money.

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Millions of Americans are no doubt relieved when they peek at their retirement savings these days.

The stock market's roughly 170% surge the past five years has helped fatten up 401(k) and other retirement accounts. The average balance for pre-retirees climbed 15.4% in 2013 to $412,131, according to a survey of different retirement accounts by Fidelity Investments.

Yet even if you have $1 million or more set aside for retirement, figuring out how much to withdraw each year is a challenge. Take out too much initially and you risk running short later on. Withdraw too little early and you could sacrifice quality of life and leave excess savings behind.

Even financial advisers disagree about optimal withdrawal rates. "It continues to be fodder for debate in bars," says Daniel Joss, an adviser with FJY Financial in Reston, Va.

Here's a Q&A to help you figure out a plan, along with some suggestions for your investment mix.

5 ways to make $1 million last

Develop a Withdrawal Policy Statement that articulates your spending and income goals

Consider following the 4% rule as a "safe" withdrawal rate for your money to last 30 years

Factor in all income sources and adjust your budget as necessary

If possible, use a bond ladder as a source of cash for most spending needs

Consider a long-term "conservative growth" portfolio

Q: Should I follow the 4% rule?

A: As a first step, many advisers recommend tallying up spending needs on one side and all non-investment income on the other, including Social Security, pension benefits and minimum distributions required from tax-deferred savings after age 70½. Then you can calculate how much income you'll need from your investments to hit your spending targets and tailor your portfolio to meet those needs.

The tougher question is how long your portfolio can sustain the annual income withdrawals you've calculated. If you're taking out 2% a year and your investments are earning 5%, you should have a big cushion. But the math gets trickier if you want to figure out a maximum rate over your lifetime. Which is where the 4% rule comes in.

According to many studies, 4% is a kind of Goldilocks withdrawal rate — not too high and not too low. Researchers have found that it's the rate most likely to be sustainable over a 30- or 40-year period, assuming a portfolio of 50-60% stocks and 40-50% bonds and cash, rebalanced and adjusted for inflation annually.

For example, if you have a $1 million account you would take out $40,000 in the first year of retirement. If inflation were running at a 2% rate, you would withdraw $40,800 the next year to maintain the same purchasing power.

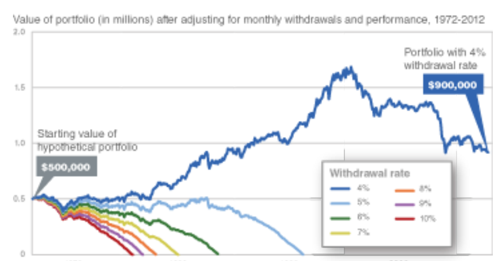
Sticking with 4% also seems sustainable even if you retire just before a bear market. If you happened to start cashing out in 1973, just as the stock market slid into a long downturn, a 4% withdrawal rate would have been the highest sustainable rate the next 35 years, according to Gregg S. Fisher, a portfolio manager of Gerstein Fisher Funds in New York.

Yet a 4% withdrawal rate may not be right for everyone. The studies assume an investor's income needs remain constant, adjusted for inflation over 30 years or more. Yet no one can accurately predict their lifespan, or their spending needs decades in the future. "I can think of many clients who did the prudent 3% to 4% withdrawals and then died with more than they would have wanted," says Fisher.

Indeed, some investors may want to withdraw more cash in their early retirement years, figuring they'll need less in their late 70s and beyond. The adviser Joss, for example, suggests that investors withdraw 5-5.5% up to age 75, then evaluate their spending trends for the previous five years and recalculate a rate for the next five years, making adjustments as needed.

Playing it safe

Even if you retired just before a bear market in 1973, a 4% withdrawal rate lasted 35 years while higher rates fell short.



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Initial investment of $500,000 invested in a portfolio of 50% stocks, 40% bonds, and 10% short-term investments.

Source: Fidelity Investments

Q: Are there better alternatives to the 4% rule?

A: Many advisers recommend that investors stay within a withdrawal range, adjusted for spending needs, inflation and life changes. One strategy Joss suggests: Use more investment income in the early years of retirement and gradually lower the withdrawal rate, substituting other forms of income like Social Security later on.

In your 60s, for example, you could withdraw up to 5.5% and delay taking Social Security until age 70, at which point you could lower your withdrawal rate to 4% or less. You'll receive a larger Social Security benefit, and may be able to reduce taxable income by relying more on capital gains and dividends in the early years, which are taxed at lower rates than ordinary income.

Another option: Consider your house as a backup income source. You might not need it, but it could enable you to spend more from your portfolio and plug an income hole if you run short, says the fund manager Fisher.

However you go, it's important to have a plan that articulates your income goals, sources of cash and course of action in case the market crashes. Advisers call these plans Withdrawal Policy Statements (WPS), and they can go a long way to keeping you on track.

"They're not there for when things are hunky dory; they give us parameters for what to do when things go wrong," says Michael Kitces, director of research with Pinnacle Advisory Group in Columbia, Md.

People tend to make bad investment decisions when markets crash, he notes, but if you have a plan you should be less likely to have a knee-jerk reaction that hurts your returns.

For example, you might be withdrawing 4% to 6% a year on a $1 million account. The plan could specify that if the account falls 10% due to a market downturn, you'll cut your withdrawal rate by a percentage point or your spending budget by 10%.

"A little fluctuation is fine," Kitces says, "but if your plan is to 'stay the course' it's not actually a plan because it won't work in all periods. You need to figure out trigger points and what kinds of spending or withdrawal changes you may need to make."

Q: What's a good investment mix?

A: Figuring out the right mix for your retirement money depends on a range of factors, including:

- Your tolerance for market volatility
- Non-investment sources of income
- Your spending patterns, both fixed and variable
- Whether you plan to deplete your savings or leave money to heirs

A standard 60/40 portfolio of stocks and bonds that's rebalanced annually would likely last 30 years at a 4% withdrawal rate, says the adviser Joss. Investors may be tempted to pare back on stocks as they get older, but Joss doesn't advise it. Since this money functions like a pension plan or endowment for you, "stocks have to be a part of it — that's where the growth and wealth creation comes from," he says.

If you're worried about market volatility, you could put 50% in stocks and set up a laddered bond portfolio targeted to match the bulk of your spending needs, says Masood Vojdani, president of MV Financial in Bethesda, Md.

The idea is to buy bonds that mature in stages over a 10-year period, rolling over the principal as each bond in the ladder matures. The income should be secure, assuming high-quality bonds with a low risk of default. And if interest rates climb, investors could harvest more income since they would reinvest at higher rates.

Another option is a "conservative growth" portfolio designed to last 30 years or more. A model Vojdani uses for clients has 55% in stocks, 25% in fixed income and 20% in alternatives, which can help improve the portfolio's diversification and risk-adjusted returns.

Under most market conditions, the portfolio should generate at least 4% in annual income and stay ahead of inflation, he says. And it shouldn't be written in stone. "The portfolio needs to be adaptable to an ever-changing world," he says.

Conservative growth portfolio

Equities	Investment mix
iShares S&P 500 Value ETF (IVE)	18.0%
iShares S&P 500 Growth ETF (IVW)	17.0%
iShares S&P Small-Cap 600 Value ETF (IJS)	5.5%
iShares S&P Small-Cap 600 Growth Index ETF (IJT)	4.5%
iShares Core MSCI EAFE ETF (IEFA)	8.0%
iShares MSCI Emerging Markets Minimum Volatility ETF (EEMV)	2.0%
Fixed income	
iShares Floating Rate Bond ETF (FLOT)	10.0%
TCW Total Return Bond Fund (TGMNX | Get Prospectus)	8.0%
PIMCO Income Fund (PONDX | Get Prospectus)	7.0%
Alternatives	
PIMCO StocksPLUS Absolute Return Fund (PSTDX | Get Prospectus)	6.0%
PIMCO Unconstrained Bond Fund (PUBDX | Get Prospectus)	4.0%
iShares U.S. Real Estate ETF (IYR)	4.0%
Franklin Convertible Securities Fund (FROTX | Get Prospectus)	6.0%

Source: Masood Vojdani, MV Financial

Using ETFs and funds, Vojdani suggests the following portfolio for illustrative purposes. It shouldn't be taken as investment advice but as a starting point for further research. (See box).

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