RETIREMENT BOOT CAMP

Boot Camp 7: The Power of Flexible Distributions

By Paul Merriman | Merriman Financial Education Foundation

If there's one lesson I keep coming back to in this entire Boot Camp series, it's this: the single biggest financial gift you can give yourself in retirement is to have saved more than you need. Not just enough — more than enough. Because when you have more than enough, you gain something money can't directly buy: flexibility. And as we're going to see in this article, that flexibility can make an extraordinary difference in how much you take out, how long your money lasts, and how much you ultimately leave behind.

In the last Boot Camp presentation, we talked about fixed distributions — taking a set amount out each year and adjusting it for inflation. That works reasonably well if you've saved just enough. But today we're exploring something more powerful: flexible or variable distributions. And the difference between the two approaches, when you dig into the tables, is honestly remarkable.

The Oversaving Advantage

Let me paint two pictures for you. In the first, you've retired with $1 million and you need $40,000 a year to live on. You're drawing exactly 4% and every year you have to nudge that distribution upward to keep pace with inflation. If the market takes a serious hit in the early years of your retirement, you're in trouble. You don't have a lot of room to maneuver.

Now picture this instead: you've saved $2 million, but your basic needs are still only $40,000 a year. At a 4% withdrawal rate, you'd actually be pulling out $80,000 — double what you need. So when inflation ticks up, when the market dips, when life throws you a curveball, you don't panic. You don't have to. You have breathing room.

My wife and I have lived this firsthand. We intentionally saved more than twice what we needed and, as a result, we've felt comfortable taking 5% a year without any sense of real risk. We've also been able to maintain a higher equity allocation than we otherwise could, because we can afford the volatility. When you're oversaved, a bear market is uncomfortable — not catastrophic.

Being a Defensive Investor

Before we dive into the tables, I want to take a step back and talk about what it really means to be a defensive investor — because the flexible distribution strategy is just one layer of defense in what should be a comprehensive approach.

Defense starts with diversification. When you own a single stock, you carry enormous company-specific risk. But when you own many stocks across an asset class — whether

that's large cap blend, small cap value, or international — the expected long-term return is essentially the same as owning any one of them, while the catastrophic downside risk is dramatically reduced. That's the first line of defense.

From there, each layer you add strengthens your position:

- Many stocks over one — eliminates company-specific risk.
- Mutual funds over individual stock picking — adds further diversification across potentially thousands of holdings.
- Multiple equity asset classes — small and large, value and growth, U.S. and international. Each additional layer of diversification helps protect against catastrophic outcomes.
- No-load, low-expense funds — eliminate upfront commissions and reduce the ongoing drag of high fees.
- Index funds over actively managed funds — address expense risk, tax risk, and the real possibility that an active manager's bad timing or poor stock selection becomes your problem.
- Dollar-cost averaging into the market — takes emotion out of the equation and protects you from the very human tendency to make bad behavioral decisions.
- Buy and hold over market timing — eliminates the behavioral risk that most market timers pay for dearly.

And then, when it comes to distributions specifically, taking out a lower percentage is always more defensive than taking out a higher one. Starting at 3% is more conservative than 4%, and 4% is more conservative than 5%. As we saw in the fixed distribution tables, those starting at 5% and adjusting for inflation faced a very high probability of exhausting their portfolio over a long retirement — particularly if they were heavily invested in equities.

Bonds also serve a defensive role. In retirement, a balanced portfolio protects you from a bad sequence of returns — those early bear markets that can permanently deplete your assets before you've had a chance to recover.

How Flexible Distributions Work

So what exactly is a flexible or variable distribution? The concept is simple: instead of taking a fixed dollar amount each year (adjusted for inflation), you take a fixed percentage of whatever your portfolio is worth at the end of the previous year.

Say you start with $1 million and take out 4% — that's $40,000 in year one. If the market goes up and your portfolio grows to $1.2 million, the following year you take 4% of $1.2 million — $48,000. If the market drops and your portfolio falls to $900,000, you take 4% of that — $36,000. The amount you take rises and falls with the market.

That's the catch, of course — in a down year, you take less. But here's the key insight: if you've oversaved, taking less in a bad year still leaves you with more than enough to cover your actual cost of living. And by taking less when the market is down, you preserve more of your portfolio to benefit from the recovery. That's the magic of

compounding working in your favor, and it's a fundamentally different outcome than the fixed distribution approach, which keeps charging forward regardless of what the market is doing.

Walking Through the Tables

For those who want to dig deep, I'd encourage you to download the full PDF referenced in the show notes. What we're working with here are two equity portfolios — the S&P 500 and the worldwide four-fund strategy — each paired with different fixed income allocations: 40/60, 50/50, 60/40, and all equities. We're starting with $1 million (not the $2 million I hope you have) and modeling three starting withdrawal rates: 3%, 4%, and 5%. Distributions are taken at the start of each year, with no annual inflation adjustment — just a straight percentage of the prior year-end balance.

Table F1.3 — S&P 500, 3% Flexible Withdrawal

This is the starting point: the S&P 500 as the equity component, with a 3% flexible withdrawal rate across four allocation mixes — 40/60, 50/50, 60/40, and 100% equities. Because the year-end portfolio value differs for each allocation, the dollar amount distributed each year differs as well. That's an important distinction from the fixed distribution tables, where everyone taking 3% received the same dollar amount regardless of their allocation.

Looking at the 1970s data (Table F1.3, 1970–1979): Because distributions aren't being adjusted upward for inflation, the payouts can actually decline in real terms during rough stretches. For example, by 1975 the 3% distribution on a $1 million starting portfolio might produce something in the neighborhood of $30,216. That sounds modest. But remember — we're modeling this against a $1 million base. If you started with $2 million, you're looking at roughly $60,000-plus even in that lean year, which is well above a $40,000 basic need, even when adjusted for inflation. The flexibility of the approach reveals its strength when you layer in the oversaving assumption.

Table F1.3, 1980–1989: The Decade of Recovery

The 1980s were a fantastic decade for the markets, and the flexible distribution model rewards you for staying in. By the end of 1989, the 50/50 strategy (50% S&P 500, 50% fixed income) had grown to approximately $4.5 million — with that year's distribution hitting $114,000. That's the compounding advantage in action: because you took less during the down years of the 70s, you had more invested when the bull market arrived.

Table F1.3, 1990–1999: The Numbers Get Remarkable

Continue through the 1990s and the results become genuinely striking. By the end of 1999, the flexible 3% strategy on a $1 million starting portfolio had grown to approximately $11 million, with an annual distribution of around $310,000 that year. Double those numbers for a $2 million starting point and you're looking at a $22 million portfolio and a $620,000 annual distribution.

Now compare that to the comparable fixed distribution table (Table D1.3, 1990–1999). After 20 years of inflation-adjusted increases on a $30,000 starting distribution, the fixed payout in 1990 had climbed to just over $100,000. The flexible payout, by

contrast, was approximately $135,000 to $136,000. Again — double both figures for the $2 million saver, and the flexible strategy is paying you nearly $272,000 versus $200,000 from the fixed approach. That gap widens every year the market continues to perform.

What Happens at 4% and 5% — Tables F1.4 and F1.5

Looking at Table F1.4 alongside Table D1.4 — the flexible versus fixed comparison at 4% starting withdrawal — here's the picture after 30 years. At the end of the 1999 decade, the fixed distribution was producing about $174,000 per year (after inflation adjustments compounding over 30 years). The flexible distribution at 4% was generating approximately $306,000 that same year. On a $2 million base, those figures become $348,000 versus $612,000 — a difference of over a quarter million dollars annually.

Now let's talk about Table F1.5 — the 5% withdrawal, where things get especially dramatic. In the fixed distribution tables (Table D1.5), a 5% starting withdrawal with inflation adjustments was devastating over a long retirement. With the S&P 500 as the equity component and a 100% equity allocation, portfolios were completely exhausted by 1982 — with eight more years left in the 30-year period. Even the 50/50 allocation barely made it to 1998 before running dry.

Under the flexible distribution approach? An entirely different story. The 50/50 portfolio not only survived but was still generating income throughout the final decade. In the last year of the 30-year period, the 50/50 flexible strategy was paying out $282,000 — and leaving an inheritance of just under $6 million. The fixed strategy at 5%? Nothing. You'd have left your family, your heirs, and your charities with zero.

This is the most vivid illustration I can offer of why flexibility — backed by oversaving — is such a powerful defense. The willingness to take less when the market is down means everything when the market eventually recovers.

The Four-Fund Strategy: Even Better Results

We've been looking at the S&P 500 as the equity component, but what happens when we swap in the worldwide four-fund strategy — large and small, U.S. and international, with both value and growth represented? The results improve further.

The four-fund strategy has historically produced returns nearly identical to the 10-fund ultimate buy-and-hold portfolio, so it's a reasonable proxy for a well-diversified global equity approach. When we run the same 30-year flexible distribution scenario using the worldwide four-fund strategy in a 50/50 allocation at 5%, the numbers at the end of the period tell a compelling story.

Where the S&P 500 50/50 flexible strategy left behind approximately $5.9 million (call it $6 million) at the end of 30 years, the worldwide four-fund 50/50 flexible strategy left behind approximately $7.4 million. And that final year's distribution? Rather than the $282,000 produced by the S&P 500 version, the four-fund strategy was paying out over $356,000.

That's hundreds of thousands of dollars more in income over the course of retirement, and over a million dollars more to leave to the people and causes you care about — all from the additional diversification of incorporating international and small-cap value exposure alongside the familiar large-cap domestic holdings.

Now, if you're skeptical about international holdings or uncertain whether small companies will deliver the same rewards in the future as they have historically, that's completely understandable. The S&P 500 results are still very strong. You don't have to go global to benefit from the flexible distribution approach. But the evidence does suggest that broader diversification across equity asset classes provides meaningful additional protection — particularly during difficult decades like the 1970s and the early 2000s. It wasn't helpful in the 2008 decline, I'll grant that. There is no perfect solution.

Practical Considerations for Your Own Plan

At this point you might be asking: how does any of this apply to me personally? A few thoughts.

First, these tables are built on a $1 million starting portfolio to make the math easy to follow. Your job is to apply the appropriate multiplier. If you're starting with $2 million, double every figure you see. If you're starting with $1.5 million, add 50% to the results. The proportional relationships hold.

Second, the tables we've looked at focus on two equity portfolios — the S&P 500 and the worldwide four-fund strategy — but there are nine different equity portfolio combinations available in the full dataset. For retirees, several of these are worth exploring: the all-U.S. four-fund strategy, the five-fund all-value portfolio (which has eliminated much of the higher-risk growth exposure), and others. Daryl has produced more than 70 distribution tables you can work through.

Third, many investors find that splitting their portfolio into multiple buckets — one using the S&P 500 as the equity, one using the four-fund strategy, perhaps another using an all-value approach — provides both diversification and intellectual comfort. There's nothing wrong with that.

Fourth, the Merriman Lifetime Investment Calculator allows you to model your own specific scenario — different starting amounts, different withdrawal rates like 4.5% or 4.7%, different time horizons. It's designed to help you find what works for your situation, not a generic one.

And finally — if any of this is confusing, please reach out. You can email me directly through paulmerriman.com. If something isn't clear to you, it probably isn't clear to others either, and that's feedback I take seriously.

Coming Up Next: An Initial Discussion About the New Best In Class Recommendations Plus Your Q&As

We're taking a short break next week while I wait for Chris to return so we can do full justice to the Best in Class and Two Funds for Life material. But I won't leave you

empty-handed. For those of you who have been asking, I'll be spending some time previewing the new approach to Best in Class for 2026 and beyond. I think you're going to like it.

In the meantime, please download the PDF tables referenced in the show notes and spend some time with the numbers. There are periods in there — 1970 through 79, 1980 through 89, 1990 through 99 — that tell a vivid story about what being flexible can do for a retirement portfolio. And if you can see yourself in those numbers, I hope they give you the same confidence they gave my wife and me.

Key Takeaways

- Oversaving is the foundation of flexible distributions. The strategy only works comfortably if you've saved more than you actually need — ideally twice as much. With more than enough, taking less in a down year still leaves you covered.
- Flexible distributions beat fixed distributions over time. By reducing withdrawals when the market falls, you preserve more capital to benefit from the recovery. Over 30 years, the difference in outcomes is extraordinary.
- Table F1.3 (S&P 500, 3% flexible): By 1999, a 50/50 portfolio starting at $1 million was worth approximately $11 million with a $310,000 annual distribution — results that dwarf the comparable fixed distribution outcomes.
- Table F1.4 vs. D1.4 (4% comparison): At the 30-year mark, the flexible strategy produced annual distributions of approximately $306,000 versus $174,000 for the fixed strategy — nearly double.
- Table F1.5 (5% flexible): Where the fixed 5% approach wiped out portfolios by 1982 (all equities) or 1998 (50/50), the flexible approach ended the 30-year period paying out $282,000 annually and leaving nearly $6 million for heirs.
- The worldwide four-fund flexible strategy outperformed the S&P 500 version: $7.4 million remaining at the 30-year mark versus $6 million, with annual distributions of $356,000 versus $282,000 in the final year.
- Defense is layered. Diversification, low-cost index funds, dollar-cost averaging, buy-and-hold discipline, appropriate bond allocation, and a lower starting withdrawal rate all work together to protect your retirement portfolio.
- Use the Merriman Lifetime Investment Calculator at paulmerriman.com to model your specific scenario — your starting balance, your desired withdrawal rate, your time horizon.

Paul Merriman is founder of the Merriman Financial Education Foundation, dedicated to providing free financial education to investors at every stage of life. Visit paulmerriman.com to access the full Boot Camp series, distribution tables, and the Merriman Lifetime Investment Calculator.