After Dave Ramsey unleashes on 4% rule, advisors unleash on him

Monica Dwyer of Harvest Financial Advisors and Kashif Ahmed of American Private Wealth

Prospects who are fans of the radio host can be turned off by criticisms of his guidance, so it can pay to be diplomatic in critiquing his 8% rule.

November 30, 2023 *By Emile Hallez*

With 20 million weekly radio listeners, Dave Ramsey is perhaps the most influential media personality on money, which means some of his guidance can be particularly dangerous, financial advisors say.

There's been a lot of reaction to Ramsey's advice about withdrawing 8% from retirement accounts annually, after the radio host earlier this month decried ***4% recommendations***, dismissing academics who have studied it as "nerds."

Some clients or prospective ones will have questions about which figure is closer to being right — and ***Ramsey devotees*** might not like his advice being critiqued. One advisor told *InvestmentNews* that she has lost prospects because she didn't "preach the 'Ramsey way.'"

The radio personality's 8% version of that withdrawal rate rule is ***hardly new*** — he's been espousing it for years. But withdrawal rates have been newsworthy lately amid new research showing that 4% is a safe starting point for most people.

"If you're making 12[%] in good mutual funds, and the S&P has averaged 11.8[%], and if inflation for the last 80 years has averaged 4% … that leaves you 8[%]," Ramsey said to a caller on ***his radio show.*** "If you want to be a little bit conservative, 7[%], but sure not 5[%] or 3[%]."

CO-HOST THROWN UNDER THE BUS

The question was in response to guidance from Ramsey co-host George Kamel, who apparently advocated 4% to 5% withdrawal rates as being sensible.

"There are a lot of studies that are stupid in this space," Ramsey said, expressing surprise that his brand had published the advice. "There are all these goobers who have always put this 4% crap in the market. And I'm just irate right now that we have joined the stupidity."

Researchers, most recently a group at Morningstar, have put 4% out there as a starting point, as it has a 90% success rate at getting retirement assets to last for 30 years. That, according to the new research, assumes an equities allocation at retirement of 20% to 40%.

One of Ramsey's contentions with the 4% rate is that it could lead people to think they will need higher account balances in retirement than they will likely achieve, which might discourage people from saving and investing at all.

But a big problem with the 8% rate is that it assumes a 100% equity allocation, and depending on market conditions early in retirement years, that could cause portfolios to be depleted quickly, advisors said.

WHAT THE 'NERDS' SAY

In a response published as ***an op-ed*** in Think Advisor, researchers David Blanchett, Michael Finke and Wade Pfau noted, "Ramsey doesn't appear to grasp the differences between geometric returns (what you earn in an investment) and arithmetic returns (the simple average). He also doesn't appreciate how a 100% stock portfolio increases sequence of return risk. A retiree who listened to Ramsey and followed an 8% withdrawal rule while holding a four-fund stock portfolio in the 2000s would have run out of money in as little as 13 years."

In a ***response*** that he noted was glib, John Rekenthaler, director of research for Morningstar Research Services, noted that, "The obvious way to withdraw aggressively from an investment portfolio without depleting it is … to die early. While generally not regarded as a desirable solution, expiring quickly does permit retirees to follow Ramsey's advice."

Ramsey's company did not immediately respond to a request for comment.

ADVISORS AREN'T FANS

There was no shortage of takes by financial professionals, many of whom were quick to point out in email responses to *InvestmentNews* that ***Ramsey*** is not a fiduciary for the advice he gives to listeners.

"Ramsey is a buffoon. Any charlatan like him is reckless giving advice when he knows nothing about any listener/readers personal situation," said Kashif Ahmed, president of American Private Wealth. "My clients do not bring up what he says, even though some of them know about him, and have even read his books in the past. They know that I am their fiduciary and give advice that is tailored to their situation."

John Power, principal of Power Plans, similarly said clients haven't raised questions about Ramsey's advice.
"He isn't a legitimate money advisor; he's a self-promoter … No responsible advisor would ever suggest that as an appropriate strategy," Power said. "But Mr. Ramsey isn't constrained by the rules of fiduciary behavior, so doesn't have to worry. He can say what he wants as he doesn't have to answer for it."

Clients do ask frequently about withdrawal rates, but it is rare for a strategy to be the same for two people, said Robert Shannon, financial planner at Brazos Wealth Advisors.

"Being contrary to Mr. Ramsey happens all the time because we have different jobs and objectives. He is selling his subscriptions, and I am selling investment advice and financial planning. I am held to the fiduciary standard under the law, and Mr. Ramsey is not," Shannon said.

Thinking that the broad financial advice given by a media personality applies to individual circumstances is risky, said Christopher Cybulski, financial planner at Chisholm Trail Financial Group. Higher withdrawal rates can be useful for people early in retirement who want to delay claiming Social Security, he noted.
"I had a client who was a fantastic welder retire at 63 years old. He had more than enough to live on and wanted to delay Social Security as long as possible. His withdrawal rate was around 5-6% a year," Cybulski said, noting that the client waited to claim Social Security for four years. "Now his withdrawal rate is half of what it was before."

SOME DON'T ENTIRELY DISAGREE

"The 4% rule is designed to live off the interest indefinitely with ability to keep pace with inflation. But no one lives indefinitely, so 8% may be appropriate for someone not trying to leave the principal to someone," said Michael Whitty, partner at law firm Smith Gambrell & Russell. "The average lifetime in retirement is somewhere around 15-20 years, so if you're okay with exhausting your principal, an 8% withdrawal rate is not unrealistic."

Further, an 8% withdrawal rate could be appropriate if applied to investment assets, but not all of a retiree's assets, said David Jackson, financial advisor at Modern Horizons Wealth Advisors.

"Because it is a unitrust model, rather than an annuity model, it could never draw the asset base down to zero," Jackson said, noting that clients' desires for legacy assets also have to be considered. "Another factor that Ramsay may be considering in his relatively higher proposed withdrawal rate is that retirees tend to consume more in the years of early retirement than later."

IN ANY CASE, USE CAUTION

"Dave Ramsey is clearly a smart guy and provides a lot of good (albeit generic at time) advice around money and retirement planning," said Ryan Salah, partner at Capital Financial Partners, noting that Ramsey was clearly wrong regarding an 8% withdrawal rate. "[He] isn't responsible for sitting down with Mr. and Mrs. Client in 1, 3, 5, or 10 years when their retirement plan is or isn't on schedule. That's the difference between Dave and the financial advisor community."

Julie Anderson Bray, president of GW Financial, said that "it's crucial to consider the importance of global and asset diversification in retirement planning."

Being diplomatic when it comes to clients' potential enthusiasm for media personalities' money advice can be important, she noted. "In discussing differing opinions, constructive dialogue is key. Advisors can contribute by emphasizing the benefits of a well-rounded approach while respecting diverse perspectives within the financial community."

Another advisor, Monica Dwyer, vice president at Harvest Financial Advisors, pointed out that Ramsey "has gained a lot of following from people who have turned their lives around and become motivated to pay off their debts and save more, my daughter being one of his recent converts."

But people should keep in mind that he isn't a CFP, she said, adding that the 8% withdrawal rule "is very dangerous," given its potential to drain accounts quickly.

"I have lost prospects because they are Ramsey fans, and they could not understand why we purchase individual stocks to manage our portfolios. One prospect told me that it was a red flag," Dwyer said. "Listen to Dave only about budgeting and debt management, not investment advice."
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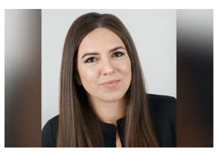

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