VLF*Alert*

ValueLine*funds*

1st Quarter 2025

Volume XIV, Issue I

00297965

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Dear Fellow Shareholder,

Thank you for choosing Value Line Funds as a part of your diversified investment portfolio. For over half a century, Value Line Funds has championed sound investment principles and helped thousands of investors accomplish their financial goals with our actively managed family of mutual funds.

We hope you enjoy this edition of the VLFAlert and thank you for your continued support.

Is the 4% Rule Still Useful?

The 4% Rule is a popular "rule of thumb" that suggests if a retiree withdraws 4% of their portfolio in year one, then annually adjusts that withdrawal for inflation, they should not exhaust their portfolio during retirement. In today's real world, is that 4% Rule still useful? What factors influence its reliability? Is Dynamic Spending an alternative worth considering? What does that mean and how might we carry it out? Whether you are nearing or well into retirement, these are important questions. After all, you spent years saving for retirement. Thinking about how best to withdraw those monies is worth some time, too.

How Does the 4% Rule Work? The 4% Rule, devised in 1994 by financial advisor William Bengen based on historical data from 1926 to 1976, has, since then, been widely accepted by both financial advisors and individual retirees alike. It's a retirement withdrawal strategy that suggests withdrawing 4% of your savings in the first year of retirement, and then adjusting for inflation each year after that, should mean your portfolio will last about 30 years, assuming that portfolio is 50% stocks and 50% bonds. For example, let's say your portfolio at retirement totals $1 million. You would withdraw $40,000 in your first year of retirement. If the cost of living increases 2% that year, you would give yourself a 2% raise the following year, withdrawing $40,800. In year three, you'd adjust for inflation again, let's say 2.5%, based on the previous year's withdrawal, or $40,800 + 2.5%, or $41,820—and so on for 30 years.

What Are the Benefits of the 4% Rule? The biggest pro of the 4% Rule is its simplicity. It is rather easy to understand and follow. It is intended to provide a steady, predictable income stream while maintaining an adequate account balance to help you avoid outliving your retirement savings. Also, assuming a reasonably healthy investment return, 4% Rule withdrawals will likely consist primarily of interest, dividends and investment gains, not principal. By keeping the core of your retirement portfolio invested longer, your investments can potentially continue to grow. This strategy could be best for you if you plan to maintain a steady level of spending from year to year.

Are There Caveats to the 4% Rule? In short, yes. The 4% Rule is rigid, not adjusting for personal circumstances, such as your local cost of living, where you expect to retire and, perhaps most importantly, your own life expectancy. It doesn't provide for changes in spending habits and lifestyle changes over time, for example, traveling more in the early years of retirement, having higher medical expenses later. Your own personal tax rate, the tax status of your various portfolio accounts, and investment management fees are not calculated into the strategy. Differences in asset allocation and portfolio diversification are not considered. Further, the 4% Rule uses historical market returns, which, as we know, cannot guarantee future results. Nor does it account for shifts in macro conditions, asset performance or market volatility. Finally, the 4% Rule requires strict adherence—splurging in any one year can have consequences later, as it may reduce principal and thus impact the compound interest you depend on for sustainability.

The 4% Rule could be a useful guideline, a well-informed starting place and a helpful framework to jump off from, but there are more flexible ways to approach spending in retirement you may want to consider.

What Is Dynamic Spending? Dynamic Spending is a retirement withdrawal strategy that allows for spending increases in positive markets and decreases in down markets, acknowledging that market conditions are ever-fluctuating. There are several effective approaches to Dynamic Spending, but let's take a look at just two.

- **The "Guardrails" Approach** This establishes guardrails of 20% above or below the initial withdrawal percentage. If a subsequent withdrawal amount falls outside these boundaries, adjusted for inflation, it's then modified by +/- 10% to bring it in line with the guardrails. For example, assume a retirement portfolio valued at $1 million and using the 4% Rule for the initial withdrawal of $40,000. The guardrails, set at +/- 20%, would then be 4.8% and 3.2% of the amount of the portfolio each year. Now let's suppose the market goes up significantly, and the portfolio is now worth $1.4 million and the inflation rate is 3%. The $41,200 amount ($40,000 + 3%) on a portfolio value of $1.4 million equates to a 2.94% withdrawal rate. In this case, because the 2.94% falls outside of the guardrails, you would add 10% to the withdrawal amount of $41,200 to bring it to $45,320. This would be 3.24% of the current portfolio amount and would fall within the guardrail percentages originally set. In a down market, the same calculations would be done, and the withdrawal amount would be decreased.
- **The "Ceiling/Floor" Approach** Here, you calculate the upcoming year's withdrawal by adjusting the amount of this year's withdrawal based on your portfolio return for the year, but you do not go any

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higher than the ceiling or any lower than the floor you set as part of your strategy. For example, let's use a 5% ceiling and a -2.5% floor. With a retirement portfolio of $1 million, you would start by taking 4%, or $40,000, in Year 1. The ceiling and floor for the following year would be calculated as $42,000 and $39,000, respectively. Assuming a 6% portfolio gain, the withdrawal for Year 2 would be calculated as $42,400 ($1.06 million x 4%). Since $42,400 exceeds the ceiling of $42,000, the withdrawal would be limited to that ceiling amount. If the calculated amount had been below the floor, you could increase the withdrawal to the floor amount. In subsequent years, both portfolio gains and inflation rates would be taken into account in calculating withdrawal amounts.

What Are the Benefits of Dynamic Spending? Dynamic Spending is far more flexible than the 4% Rule but can still help protect your retirement portfolio and provide predictable income, albeit income fluctuating within limits. Dynamic Spending keeps one from withdrawing too much in a down market and allows for more discretionary income if market returns are up—taking into account actual returns on your specific portfolio, not historical data on a hypothetical portfolio and, most importantly, increasing the likelihood your money will last. These approaches also serve to mitigate the sequence of returns risk, which is when withdrawals are made during a severe or protracted down market early in retirement, making it difficult to recover. Importantly, Dynamic Spending is customizable to your individual preferences, time horizon, allocation and circumstances—you decide how much to withdraw the first year and how much you are willing and able to adjust your spending in response to market performance.

Is There a Dynamic Spending Strategy Downside? Both the 4% Rule and the Dynamic Spending strategies emphasize a rather complete spending down of savings during the retiree's lifetime rather than leaving a portion of monies as a legacy for loved ones and/or charity. So, for those who wish to leave as large an inheritance or bequest as possible, an approach that minimizes spending may be preferred. And neither strategy guarantees that your retirement savings will last the remainder of your life; it's a matter of maximizing sustainability and minimizing risk.

A Few Additional Thoughts from the Value Line Funds Management Team

Managing retirement savings withdrawals is an imperfect balancing act. There are several other retirement withdrawal strategies besides those examined here, including fixed-percentage, fixed-dollar, and buckets withdrawal strategies. What is most important is to have a disciplined plan so you are not withdrawing randomly and heightening the risk, unnecessarily, of outliving your retirement savings.

- Be sure to factor in Social Security, pension or other non-portfolio income sources when determining your annual spending. For example, if you need $75,000 annually but receive $36,000 from Social Security, you don't need to withdraw the whole $75,000 from your portfolio—just the $39,000 difference.
- Stay flexible and evaluate your withdrawal plan annually or when significant life events occur. After all, in the real world, life is not predictable, nor are financial markets. Stuff happens. Spending needs are not constant. And even our definition of "safe" may change as we age. Don't be afraid to adjust, or even switch, strategies, based on shifting market conditions and your circumstances, as needed.

Ultimately, the objective of any retirement withdrawal strategy is not to focus on mathematical calculations that determine your spending. It's to have enough money to support your retirement lifestyle goals. To read more about the Value Line Funds and how we can be part of helping you build and maintain your retirement portfolio, we invite you to contact your investment representative or visit us at www.vlfunds.com.

Wishing You a Healthy, Safe and Prosperous 2025!

As we move into the new year, we take this moment to express our gratitude to you, our shareholders, for your confidence. We look forward to serving your investment needs just as we have been helping to secure generations' financial futures since 1950—based on solid fundamentals, sound investment principles and the power of disciplined and rigorous analytics.

Diversification does not ensure a profit or guarantee against a loss. Past performance is no guarantee of future results. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund's prospectus, which can be obtained from your investment representative or by calling 800.243.2729. Please read it carefully before you invest or send money.

Check out our News & Commentary at vlfunds.com for the latest on the Value Line Funds.

For more mutual fund information, call today: 800.243.2729 or visit our website at www.vlfunds.com

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