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How Can I Make My Retirement Savings Last?

By: E. Napoletano, Jul 28, 2020

It's not uncommon to worry about making your retirement savings last. Retirement may go on for decades, through good markets and bad. The money you've saved needs to provide steady income, and help you through any number of financial or medical emergencies.

Here are some basic strategies for retirement withdrawals and spending that can help give you confidence that your retirements savings will last as long as you need them to.

The 4% Rule Can Make Your Retirement Savings Last

In 1994, a financial advisor named William Bengen published a study that gave the world what's known as the4% Rule. Using over 50 years of stock market data, Bengen determined that if investors withdrew 4% of their retirement savings in the first year they retired, and then kept withdrawing the same amount, adjusted for inflation, their nest egg would last 30 years in most cases.

If you've accumulated $500,000 in retirement savings, applying the 4% Rule would mean withdrawing $20,000 in the first year you are retired. Each year after that, you'd adjust this safe withdrawal amount by adjusting for inflation. If the inflation rate were 2%

during year two of your retirement, for instance, you could bump up your annual withdrawal to $20,400.

Adjustments to the 4% Rule

The 4% Rule isn't a hard and fast guideline, though. There are additional factors that can impact whether this rule will truly make your retirement savings last.

Paul Samuelson, chief investment officer and co-founder at portfolio management software developer LifeYield, recommends that investors start with 4% as a basic annual withdrawal rate and potentially make adjustments downward from there.

"The [withdrawal] rate should be lower if you begin retirement earlier than age 70 or if you want to preserve a cushion against disappointing market returns," says Samuelson. "The [withdrawal] rate and amount also need to be revised over time to reflect your progress through retirement and unanticipated changes in the investment values."

As you start planning for ways to make your retirement savings last, use the 4% rule as a loose guideline for your annual withdrawals from your nest egg. Then make annual adjustments that reflect inflation as well as any unexpected market developments or emergency expenses you encounter.

Get the Right Asset Allocation for Your Retirement Savings

Another way to help make your retirement savings last is by adjusting your asset mix, thereby lowering your overall portfolio risk.

When you're younger and at the beginning of your retirement savings journey, there's less reason to worry about market ups and downs because you have plenty of time to recoup losses. When you get closer to retirement, however, you'll likely want to protect your nest egg. And once you've retired, you will need a low-risk portfolio designed to preserve what you've saved and generate income.

If you're approaching retirement or already retired, lower your risk by shifting your asset mix from a wealth accumulation strategy to a capital preservation and income generation strategy. A portfolio focused on growth might have a mix of up to 70% or even 100% stocks. Meanwhile, an income-focused portfolio would instead have a mix of 70% or even 100% bonds. For context, when crafting the 4% Rule, Bengen examined a portfolio of 50% stocks (the S&P 500) and 50% bonds (intermediate term Treasuries). Your own asset allocation may vary based on your goals and risk tolerance.

Asset Allocation Strategies to Make Your Retirement Savings Last

Here are three asset allocation options that can help you stretch your wealth throughout retirement.

- Choose a target-date fund. A target-date fund automatically adjusts your asset mix from a higher risk, stock-focused portfolio to one that's lower-risk and more heavily weighted in fixed income investments the closer you get to your retirement date. As you move into retirement, fund managers focus on investments that will preserve your wealth while providing income through investments like bonds and dividend-producing stocks. With a single fund, you can automatically achieve an optimal asset mix.
- Build a two-fund portfolio. This strategy involves buying two broad market index funds or exchange traded funds (ETFs), one for stocks and one for bonds. For stocks, choose a fund that tracks the S&P 500, and for bonds find a fund that tracks a large portion of the bond market, like the Bloomberg Barclays US Aggregate Bond Index. As you get closer to retirement, gradually shift your allocation from the stock fund to your fixed-income bond fund.
- Make a custom portfolio. If you're more hands on with your investments, choose individual stocks and bonds, or a combination of stocks and a broad-market bond ETF

or mutual fund. As you near retirement, gradually sell some of your stock holdings and reinvest the funds in fixed income vehicles.

Stay in the Stock Market to Make Your Retirement Savings Last

If you're concerned you haven't saved up enough money to last through retirement, you might want to consider an asset mix that remains heavy on stocks to drive growth. Instead of a capital preservation portfolio with a 70% to 100% allocation in fixed income, you might choose a mix of 70% bonds and 30% stocks.

By allocating a bit more to stocks, you can potentially enjoy more growth in your portfolio immediately before you retire and even into retirement. Given that the stock market has historically returned 10% to 11% per year and the bond market's return has been between 5% and 6%, you can still maintain a relatively conservative, low-risk portfolio while capturing some gains from stocks.

Your asset mix fuels the income you grant yourself via a disciplined annual withdrawal rule. By preserving your wealth at the asset allocation level, you're putting yourself in a better position to make your savings last for years to come.

Spending Tips to Help Make Your Retirement Savings Last

These spending tips can help you stretch your retirement income even further:

Delay Taking Social Security

If you were planning to begin taking Social Security benefits when you're first eligible, at age 62, you might want to reconsider.

"Those who choose to take the benefit early should expect up to a 30% reduction in monthly benefits, compounded over their lifetime," says Michele Lee Fine, RICP, founder and CEO of Cornerstone Wealth Advisory.

If you opt to begin receiving Social Security when you turn age 62, your benefit is somewhat reduced. You begin receiving full benefits as you grow older—the age varies from 65 to 67, depending on the year you were born. And if you delay taking full benefits until you turn 70, your full benefit amount will be larger.

Plan for a Mortgage-Free Retirement

Keeping expenses down during retirement is always a smart move, but paying off your mortgage before you reach retirement can do more than just cut expenses.

“By paying off the mortgage, it frees up monthly cash flows and lowers costs at a time in life where simplicity and lower overhead can provide far greater peace of mind,” says Lee Fine.

If the thought of a mortgage-free retirement is appealing, you might consider an accelerated payoff strategy during your last decade in the workforce. You can keep your retirement savings on track while routing some of your non-retirement savings assets into paying off your mortgage.

Maximize Rewards and Points Programs

Rewards and points programs can help you maximize both your retirement savings and lifestyle. If travel’s in your retirement plans, you might want to consider a credit card with travel-related points and miles. You can spend the years prior to retirement accumulating miles that are essentially free money you can spend on hotels and airfare when you’re retired.

Instead of using a chunk of your annual 4% withdrawal on travel, you can instead preserve your cash and lean on rewards to pay for what can often be the costliest part of any trip: transportation and accommodations.

Consider a Fixed Annuity

If you're worried about outliving your savings, take a closer look at a fixed annuity to help stretch your retirement savings.
An annuity is an insurance product that pays retirees a fixed stream of income. You can fund a fixed annuity with your current retirement assets, and the annuity provider agrees to give you steady, guaranteed income payments for a set number of years.

Some annuities let you opt for death benefits, which can pass some of the annuity's income payments onto your surviving spouse or another beneficiary. This can be a benefit to those who are worried about outliving a spouse and taking care of their spouse should they die.

Get Professional Advice

Finally, one of the key ways you can make your retirement savings last is to work with a financial advisor and a tax professional.

Financial advisors can help you find the best asset mix to meet your retirement income goals. They're well-versed in Social Security and the taxable implications of IRS-required minimum distributions (RMDs). They can also work directly with your tax professional to design an asset withdrawal strategy that helps you avoid unnecessary taxes.

You may also consider enlisting the help of a tax professional. A tax professional can help you navigate all of your retirement income so you don't land in a higher tax bracket each year than necessary. This is especially critical if you have multiple types of retirement accounts, such as IRAs, a 401(k), and other taxable savings you might draw on for income.