

Outliving Your Money: A Retirement Risk You Can't Ignore

One of the most pressing fears for retirees today isn't market volatility or rising taxes—it's the possibility of outliving their money. With people living longer than ever before, retirement can now stretch 25 to 35 years or more. Without proper planning, even a substantial nest egg can erode faster than expected, leaving retirees financially vulnerable in their later years.

Why This Happens

Outliving your money, also known as longevity risk, often stems from a combination of factors:

- **Underestimating Life Expectancy:** Many people plan as though they'll live into their 80s, but more retirees are living well into their 90s—and sometimes beyond. A 65-year-old couple today has a nearly 50% chance that at least one spouse will live past age 90.
- **Inflation:** Even at modest rates, inflation reduces your purchasing power over time. What costs \$50,000 a year today might require \$85,000 or more in 20 years to maintain the same lifestyle.
- **Healthcare and Long-Term Care Costs:** Medicare doesn't cover everything. Out-of-pocket healthcare expenses and the potential need for assisted living or nursing care can rapidly drain savings.
- **Market Risk and Poor Timing:** A market downturn early in retirement—known as sequence of returns risk—can permanently damage your portfolio's ability to support future withdrawals.
- **Overspending or Inconsistent Withdrawals:** Without a clear withdrawal strategy, it's easy to take out too much too soon or fail to adjust withdrawals as circumstances change.



How to Avoid Outliving Your Money

Preventing this outcome starts with proactive and flexible planning. Here are several key strategies:

1. Develop a Retirement Income Plan

Work with a financial advisor to build a strategy that outlines how you'll turn your savings into a sustainable income stream. This plan should coordinate:

- Social Security benefits
- Pension income (if applicable)

- Required minimum distributions (RMDs)
- Tax-efficient withdrawals from IRAs, Roth accounts, and taxable investments

2. Use a Safe Withdrawal Strategy

The “4% rule” suggests withdrawing 4% of your portfolio in the first year of retirement and adjusting for inflation each year after. While it provides a useful benchmark, it may need to be adjusted based on market conditions, longevity projections, and personal spending habits.

3. Create Guaranteed Income Streams

To cover basic living expenses, consider sources that provide reliable lifetime income:

- Delaying Social Security can increase your benefit by up to 8% per year past full retirement age.
- Annuities can offer guaranteed income for life, protecting you from market fluctuations and outliving your funds.

4. Account for Healthcare Costs

Budgeting for healthcare is essential. Consider:

- A Health Savings Account (HSA) if you’re still working
- Medigap policies to cover out-of-pocket Medicare expenses
- Long-term care insurance or hybrid policies that combine life insurance with long-term care benefits

5. Revisit and Adjust the Plan Regularly

A retirement plan isn’t “set it and forget it.” Markets change, laws change, and so do personal circumstances. Annual reviews with your advisor can help make timely adjustments and keep you on track.

Outliving your money isn’t just a theoretical risk—it’s a real and growing concern as lifespans increase and retirement becomes more complex. But with the right strategies in place, you can protect your financial security and enjoy retirement with greater peace of mind.

If you haven’t reviewed your retirement plan recently, now is the time. A professional can help ensure your income strategy, tax plan, and investment choices are aligned to support a long and fulfilling retirement.

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