Reducing the Risk of Outliving Your Money

What steps might help you sustain and grow your retirement savings?

Provided by Ron Richards

"What is your greatest retirement fear?" If you ask any group of retirees and pre-retirees this question, "outliving my money" will likely be one of the top answers. In fact, 51% of investors surveyed for a 2019 AIG retirement study ranked outliving their money as their top anxiety.[1]

Retirees face greater "longevity risk" today. The Census Bureau says that Americans typically retire around age 63. Social Security projects that today's 63-year-olds will live into their mid-eighties, on average. This is a mean life expectancy, so while some of these seniors may pass away earlier, others may live past 90 or 100.[2,3]

If your retirement lasts 20, 30, or even 40 years, how well do you think your retirement savings will hold up? What financial steps could you take in your retirement to try and prevent those savings from eroding? As you think ahead, consider the following possibilities and realities.

Realize that Social Security benefits might shrink in the future. For decades, Social Security typically took in more dollars per year than it paid out. That ongoing surplus – also known as the Social Security Trust Fund – is now projected to dry up by 2035. Congress may act to address this financing issue before then, but the worry is that future retirees could get slightly less back from Social Security than they put in. It may be smart to investigate other potential retirement income sources now.[4]

Understand that you may need to work part time in your sixties and seventies. The income from part-time work can be an economic lifesaver for retirees. What if you worked part time and earned $20,000-30,000 a year? If you can do that for five or ten years, you effectively give your retirement savings five or ten more years to last and grow.

Retire with health insurance and prepare adequately for out-of-pocket costs. Financially speaking, this may be the most frustrating part of retirement. You can enroll in Medicare at age 65, but how do you handle the premiums for private health insurance if you retire before then? Striving to work until you are eligible for Medicare makes economic sense and so does building a personal health care account. According to Fidelity research, a typical 65-year-old couple retiring today will face out-of-pocket health care costs approaching $300,000 over the rest of their lives.[5]

Many people may retire unaware of these financial factors. With luck and a favorable investing climate, their retirement savings may last a long time. Luck is not a plan, however, and hope is not a strategy. Those who are retiring unaware of these factors may risk outliving their money.

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