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12 Ways to Ensure You Don't Run Out of Money in Retirement

Worried your cash will run out before you do? Try these 12 strategies to stretch your money further.

By Maryalene LaPonsie | August 5, 2016

Make your money last.

Retirement should be a time to relax and indulge in personal pursuits. Unfortunately, many seniors haven't saved enough, and their retirement years may be marked by financial worry and instability. For those who are concerned they don't have enough cash, here are 12 ways to stretch the dollars you do have.

Create a budget.

Financial experts agree: There's no way to stretch money in retirement if you don't know your income and expenses. "It's like shooting in the dark if you don't have a plan," says Kathleen Hastings, a chartered advisor for senior living with FBB Capital Partners in Bethesda, Maryland. In some cases, people may think they have a budget when they really don't. "They may have some investments and a rough idea of how much they spend each month, but they don't have a plan," says Germi Cloud, a national Social Security advisor with Cloud Financial in Huntsville, Alabama. Once a budget is in place, it should be reviewed and adjusted regularly.

Get a part-time job.

Sometimes a budget reveals a significant income shortfall. "No one wants to hear this, but it might be good to look into a part-time job," says Margaret Paddock, Twin Cities market leader of The Private Client Reserve at U.S. Bank. Seniors could pursue traditional part-time jobs or work as a consultant in their former field. Other options include renting rooms out or finding a position within the emerging sharing economy. "There are a lot of 75-year-old Uber drivers working 15 hours a week," says Leslie Roberts, an investment advisor at Stillwater Financial Group with offices in Boca Raton, Florida, and Plymouth, Pennsylvania.

Refinance debt.

It's best not to carry debt into retirement, but that's not a possibility for all seniors. "Try to get big-ticket items done before," Hastings says. For those who have mortgages or loan payments, interest rates today are low, and refinancing may free up money in the budget. Of course, those savings should be weighed against any fees that must be paid out as part of the refinancing process.

Time your Social Security right.

It can be tempting to claim Social Security at age 62 when you first become eligible, but unless you have a good reason to think you will die relatively young, it can be a costly mistake. Claiming Social Security benefits early can permanently reduce monthly benefits by as much as a third. If you delay the start of benefits, you get an 8 percent boost for every year you wait from your full retirement age to age 70.

Keep a diversified portfolio.

One of the scariest financial prospects for seniors may be a stock market downturn that wipes out retirement savings. That's the scenario some people faced in 2008 when the market saw two of the largest single-day drops in the Dow Jones occur in the same month. The best way to guard against future drops is through a diversified portfolio and investment strategy, says Stephen Davis, president of S.G. Davis Financial Group with three offices in New Hampshire. "There is no perfect financial product," he says. Instead of pinning your financial stability to one type of asset, you should have your money in a variety of investment products.

Use the right withdrawal rate.

Conventional wisdom has long held that people can safely pull 4 percent out of their investments each year and feel confident their money would last throughout their retirement. However, with the current low-interest environment, even 4 percent may be too much. Morningstar Investment Management says a 2.8 percent withdrawal rate may be safer nowadays. "People get into trouble when they start taking out 7, 8, 9 percent each year," Roberts says. "They're going to run out of money."

Avoid making withdrawals in a down market.

Pulling money out of investments when the market is down takes a bad situation and makes it even worse. "If you're taking money out of a portfolio and it's losing money, that has a profound effect on its worth," Davis says. Rather than depleting already depressed market funds, Hastings recommends people keep a cash reserve. "Have a good six months to a year's [worth of money] in cash so you have a cushion and don't have to sell in a down market."

Look for investments with dividends.

Some investments offer dividends that can supplement other sources of retirement income. However, care must be taken to ensure money doesn't go into risky investments simply for the sake of a dividend. "We use bond ladders that are tight and reduce risk," Davis says. What's more, people should understand how dividends are paid out and include that money in their budget. "The income comes from the quantity of shares," Hastings says, "not the price of shares."

Buy an annuity.

Although often misunderstood, "Certain types of annuities are a good way to ensure you don't run out of money," Cloud says. "But you have to be careful. There are a lot of different annuities, and they are complex." Annuities may require a large lump-sum payment upfront, and Roberts recommends people limit their investment to no more than 30 to 40 percent of their assets. In exchange for that payment, an annuity can provide periodic payments for life. While it may sound like the perfect solution for someone running short of cash, they do come with drawbacks. Payments may not increase at the rate of inflation, and fees can be high.

Consider a reverse mortgage.

Also known as home equity conversion mortgages, reverse mortgages make monthly payments to seniors age 62 or older. The payments are made against the available equity in a home, and once the senior passes away, the loan must be repaid. Typically, this is done through the sale of the house. To avoid losing the house, Hastings says some people are getting creative and using private reverse mortgages in which they set up loans with family members rather than a bank or other lending institutions. To avoid running afoul of gift tax laws, it's best to set up these private mortgages with the help of a financial professional.

Stop spending so much.

Many times, seniors continue to maintain the same lifestyle in retirement that they had while working. For example, couples may continue to keep multiple cars long after both partners are done commuting. "Even if they are paid off, you still have expenses for them," Paddock says. Those costs include insurance, registration fees and regular maintenance. Other ways to spend less include downgrading internet, phone and cable packages. In more extreme cases, downsizing to a smaller home or to a more affordable part of the country may be necessary.

Make sure you're properly insured.

Having a retirement fund flush with cash might not do much good if you don't have adequate insurance. Canceling the homeowner's policy or reducing car insurance to the lowest level possible could be penny-wise but pound-foolish if tragedy strikes. As for health care, Medicare will pay for most medical treatment, but you'll need a separate policy to pay for long-term care, an expense that can quickly deplete anyone's savings. Don't overlook the importance of life insurance either, if you'll leave behind a spouse or other dependent.