5 Ways to Make Your Retirement Savings Last

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Drawing retirement income without draining your savings is a challenge, and the response to it varies per individual. Today's retirees will likely need to be more flexible and look at different withdrawal methods and tax and lifestyle factors.

1. Should you go by the 4% rule? For decades, retirees were cautioned to withdraw no more than 4% of their retirement balances annually (adjusted north for inflation as the years went by). This "rule" still has merit (although sometimes the percentage must be increased out of necessity). From a mathematical standpoint, someone retiring with a typical 60%/40% stock/bond ratio in their portfolio has a much lower chance of depleting their retirement assets across a 30 year retirement than someone using a larger initial withdrawal rate.

That sounds like a pretty good argument for the 4% rule in itself. However, while the 4% rule regulates your withdrawals, it doesn't regulate portfolio performance. If the markets don't do well, your portfolio may earn less than 4%, and if your investments repeatedly can't make back the equivalent of what you withdraw, you will risk depleting your nest egg over time.

2. Or perhaps the portfolio percentage method? Some retirees elect to withdraw X% of their portfolio in a year, adjusting the percentage based on how well or poorly their investments perform. As this can produce greatly varying annual income even with responsive adjustments, some retirees take a second step and set upper and lower limits on the dollar amount they withdraw annually. This approach is more flexible than the 4% rule.

3. Or maybe the spending floor approach? That's another approach that has its fans. You estimate the amount of money you will need to spend in a year and then arrange your portfolio to generate it. This implies a laddered income strategy, with the portfolio heavily weighted towards bonds and away from stocks.

This is a more conservative approach than the two methods above: with a low equity allocation in your portfolio, only a minority of those assets are exposed to stock market volatility, and yet they can still capture some upside with a foot in the market.

4. Attention has to be paid to tax efficiency. Many people have amassed sizable retirement savings, yet give little thought as to the order of their withdrawals. Generally speaking, there is wisdom in taking money out of taxable accounts first, then tax-deferred accounts and lastly tax-exempt accounts. This withdrawal order gives the assets in the tax-deferred and tax-exempt accounts some additional time to grow. A smartly conceived withdrawal sequence may help your retirement savings to last several years longer than they would in its absence.

5. Keeping healthy might help you save more in two ways. Increasingly, people want to work until age 70, or longer. Many assume they can, but their assumption may be flawed. The 2012 Retirement Confidence Survey from the Employee Benefit Research Institute found that 50% of current retirees had left the workforce earlier than they planned, with personal or spousal health concerns a major factor.

When you eat right, exercise consistently and see a doctor regularly, you may be bolstering your earning potential as well as your constitution. Health problems can hurt your income stream and reduce your chances to get a job, and medical treatments can eat up time that you could use in other ways. Good health can mean fewer ER visits, fewer treatments and fewer hospital stays, all saving you money that might otherwise come out of your retirement fund.

Fidelity figures that a couple retiring now at age 65 will spend $240,000 (in 2012 dollars) on retirement health expenses across their remaining years. That $240,000 doesn't even include dental, over-the-counter drug and long term care costs (and as a reminder, many eye, ear and dental care costs are not even covered under Medicare or by Medigap policies). Every year you work may mean another year of health insurance coverage as well as income