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Primary retirement risk remains running out of money

By: Todd Martin

In the early 1900s, it wasn't unusual for people to work until they died. In later years, as the concept of retirement became popular, more workers embraced 65 as a retirement age. Now, with medical advancements helping people live so much longer, 65 is increasingly seen as a "young" retirement age with many staying employed past the age of 70. Why are they working so long? Because they know that the risk of running out of money is constantly present.

The truth is, the longer you live, the more likely it is that you'll run out of money. That's not how it has to be, though, because there are steps you can take to reduce the risk that you'll run out of money during retirement.

Position yourself to beat inflation.

The amount you pay for your living expenses, groceries, services and other needs are not fixed. You can usually expect them to rise over the years thanks to the power and predictability of inflation.

The average annual rate of inflation is currently 3.22 percent. While Social Security payouts increase to adjust to this boosted cost of living, you also have to ensure your other investments perform well enough to outpace inflation.

Understand market volatility

Market movement is based on general sentiment among investors—and that means markets are both unpredictable and volatile. From presidential elections and policy changes to national emergencies and industry events, uncontrollable daily incidents have a huge impact on the performance of the markets and the balance of your portfolio.

Plan for unforeseen medical expenses

Health is something that generally begins to decline in your retirement years, and that's when you get hit with higher medical expenses. Studies have shown that couples who retired in 2016 at age 65 could spend $260,000 on healthcare costs during retirement. On top of that, there may be long-term care expenses to consider.

Three factors to save you

All is not lost. You can still hope for a long life, without the dread of spending those years in fear of running out of money. It's just a matter of being prepared for the worst—and setting up for the best. The first thing you can do is to save more. Taking advantage of every incentive—from tax deferrals to credits, employer matches to workplace stock purchase and option plans—can help ensure that you have enough set aside to live comfortably throughout your retirement years.

Another option that works well in conjunction with beefing up savings is controlling lifestyle expenses in retirement. Your days of budgeting are not over after you stop working. In fact, since you no longer have the means to replace your savings, living on a budget will become more important than ever.

Lastly, you want to make sure you're putting your money in the right place.

There are many products that can help diversify you against market volatility, sequence of returns risk and running out of money, from bonds to dividend-paying stocks to annuities with a guaranteed income stream for life. Finding the right place to put your savings will help you reduce risk and increase financial stability.

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