

# Making Your Money Last in Retirement

7-step action guide to help you maximize income from savings

Written by the Editors of *Kiplinger's Personal Finance*



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# Create a Sustainable Money Plan

## 7 STEPS YOU CAN TAKE TODAY

**W**hether you're fully retired or still working, you have many choices ahead, plus some important financial decisions to make. However you choose to spend your days—volunteering, launching a second act, or traveling the world—you'll need to rely on a sustainable plan for your savings.

The emphasis now will be to manage your finances so that you can achieve the retirement you want while also ensuring that your money goes the distance. Chances are, you'll need those savings to stretch over 20 to 30 years, and your plan going forward should reflect that time frame.

Key strategies will include locking in sources of guaranteed income, preserving and protecting the savings you have, making the most of Medicare, and finding trustworthy advisers to help you make the best choices for your situation.

The good news? There are many opportunities for you to take charge of your financial security today. That's what this booklet is all about. It's an action guide that walks you through seven of the most important steps you can take now to help support your retirement years:

- Identify sources of income.
- Understand the rules for required minimum distributions (RMDs).
- Stay engaged in the workplace.
- Spend your savings safely.
- Manage Medicare wisely.
- Get trustworthy advice as you age.
- Consider your location.

Now let's take a closer look at the seven steps.

# STEP 1: Identify sources of income

**W**hen it comes to retirement income, most people gladly rely on Social Security to provide a reliable “paycheck.” And some of us are lucky to also have pension income from another source.

Beyond that, you’ll want to assess and maximize as many sources of income as possible. Here are several examples.

**Retirement savings** include tax-advantaged accounts such as 401(k)s and individual retirement accounts, or IRAs. Once you reach age 70½, you must begin taking required minimum distributions under IRS rules (see STEP 2 on RMDs) each year.

**Other income investments** include any nonretirement savings you have with banks or brokerage firms (for example, money market accounts, mutual funds or individual stocks and bonds). The earnings in these accounts are taxed every year whether or not you withdraw funds.

**Reverse mortgages**, or federally insured home equity conversion mortgage (HECM) loans, let you borrow against the equity in your home, but you don’t have to repay the loan or the interest on it until you leave the house. Set up as a line of credit, fixed monthly payments, or a combination of the two, HECMs can be used to pay off debts or cover living and medical expenses. However, fees and closing costs can be steep, and some loans may require full payback if you don’t live in your home for more than a year—say, for a stay at a care facility.

**Annuities** can work like self-funded pension plans, offering a guaranteed income stream. With an immediate annuity, you give an insurance company a lump sum and, in return, get back

a guaranteed “paycheck” for either a specific number of years or the rest of your life. The pros are predictable income and peace of mind. The cons include overall costs, such as a sales commission and annual expenses. Plus, the purchase of an immediate annuity is generally irrevocable.

**An encore career or entrepreneurial pursuit** also lets you keep one foot in the workforce, so you can stay engaged as you continue to earn income.

**Adding roommates** may be another way to offset high costs of home ownership while aging in place. If this option appeals to you, you’ll want to check state and local laws before you rent space in your home and notify your homeowners insurance company to make sure you’re properly covered against liability.

## TAKE-AWAY ACTION STEPS

- **Talk with an HECM counselor.** If you’re interested in a reverse mortgage, a government-approved professional is required to meet with you to explain terms and conditions of any loan you’re considering. Find a counselor with the Federal Housing Administration’s HECM counselor search tool, available at [HUD.gov](https://www.hud.gov).
- **Learn more about annuities’ pros and cons.** See resources like these:
  - “What Are Annuities?” US Securities & Exchange Commission, available at [Investor.gov](https://www.investor.gov)
  - “Annuities and Senior Citizens” Consumer Alert, National Association of Insurance Commissioners, available at [NAIC.org](https://www.naic.org)

## STEP 2: Understand the rules for RMDs

**R**equired minimum distributions are exactly what their name says. An RMD is the minimum amount of money you're required by IRS rules to take out of your tax-deferred retirement plans (traditional IRA, 401(k), 403(b), and 457(b) plans) every year once you turn age 70½.

*And beware:* If you don't take your full RMD, the consequences are significant. You'll be subject to a steep 50% tax penalty on the amount you didn't take!

**The dates:** You generally have to take your first RMD by April 1 of the year after you turn 70½. For the years after that, you must take RMDs by December 31. If you push your first RMD to the year after you turn 70½, you'll end up having to take, and pay tax on, two RMDs in one year.

**An example:** Say you turned 70½ in 2018 but put off taking the RMD until March 2019. At that time, you'll also have to withdraw the regular 2019 RMD and deal with a double tax burden.

**Two exceptions:** Usually, you don't have to take RMDs from your current employer's 401(k) account until you leave that job. However, if you own more than 5% of the company, you must start taking RMDs at age 70½ even if you're still on the job.

And while you do have to take RMDs from Roth 401(k)s, you're not required to take them from Roth IRAs. However, in both cases, the withdrawals are tax-free.

**A note:** Do separate RMDs apply for married couples filing jointly? You and your spouse must take RMDs separately from your own accounts even if you file a joint tax return. Pulling the RMD from only one spouse's account will trigger IRS penalties.

A tax professional can guide you through the steps for calculating how much you're required to withdraw, but you can get a quick estimate using these tools:

- Required Minimum Distribution Worksheets at [IRS.gov](https://www.irs.gov).
- Required Minimum Distribution Calculator for IRAs at [Kiplinger.com](https://www.kiplinger.com).
- Required Minimum Distribution Calculator for both 401(k)s and IRAs at [Investor.gov](https://www.investor.gov).

You can also read "FAQs About RMDs" on [Kiplinger.com](https://www.kiplinger.com) for more information.

### PREPARE FOR QUARTERLY ESTIMATED TAX PAYMENTS

Most "income" that retirees receive won't have federal or state income taxes withheld. That means you'll be responsible for making quarterly estimated tax payments throughout the year based on your expected income. That includes withdrawals from traditional 401(k) or IRA accounts, although withdrawals from Roth accounts are always tax-free.



Skipping these payments may result in penalties and interest that could significantly increase your tax bill. Find detailed explanations and forms you'll need at [IRS.gov](https://www.irs.gov) and search "pay as you go so you won't owe."

# STEP 3: Stay engaged in the workplace

**C**ontinuing to work in some capacity can be a key strategy for making your money last. In fact, nearly nine in 10 people say they expect working for pay to provide them with extra income in retirement, according to a 2018 survey by the Employee Benefit Research Institute. Pre-retirees also say they'll choose to work in some capacity simply to stay active and involved.

Fortunately, there are many resources you can tap to help discover a work opportunity that meets your needs. Here are three ideas to consider.

## AIM FOR NICHE JOB SITES

Target your search to organizations that cater to retirees. For example:

- The AARP Job Board at **jobs.aarp.org** matches interests and skills with employers that are committed to an age-diverse workforce.
- **YourEncore.com** partners with nearly 90% of the top life sciences and consumer companies to recruit retirees with scientific or technical backgrounds for short-term, flexible assignments.
- **Encore.org**, through its Encore Fellowships, matches skilled, experienced professionals who are 50+ with social purpose organizations for high-impact, paid transitional positions.

## CONSIDER THE GIG APPROACH

Anyone can connect to the gig economy, thanks to online platforms that link skilled providers with temporary paid work.

- If you speak a foreign language or play a musical instrument, for example, find tutoring opportunities at **TakeLessons.com**.
- Or visit **SideHusl.com** for ratings and reviews of more than 250 gig opportunities, their earning potential, and fees.

## EXPLORE ENTREPRENEURSHIP

Older adults are a growing segment of the US entrepreneurial population, and self-employment on your own terms can provide greater flexibility.

- **SBA.gov** offers a free online course for “encore entrepreneurs”—those wanting to start a business in retirement—search for “An Introduction to Starting Your Own Business.”
- And free business mentoring and startup education are available from **SCORE.org**, a national nonprofit network of volunteer business mentors who share expertise across 62 industries in 320 US locations.

## TAKE-AWAY ACTION STEP

- Find workforce tips, job advice, and employment services specifically geared to older adults by visiting the US Department of Labor's **CareerOneStop.org**.

# STEP 4: Spend your savings safely

Over the years, you've faithfully socked away as much as possible in your retirement accounts and carefully chosen your investments. Make the most of those savings by focusing on three steps outlined below.

## CALCULATE A SAFE SPEND-DOWN PLAN

Figuring out how much of your nest egg you can afford to tap each year can be tricky, because there are so many unknowns—from unexpected medical bills to unpredictable stock market returns.

As a starting point, one rule of thumb that many financial experts recommend is the “4% rule.” Using this strategy, you withdraw 4% of total savings (including both retirement and nonretirement accounts) during the first year. Every dollar you withdraw, including your RMDs, counts toward that 4%. Each year thereafter, you increase that 4% slightly to account for inflation.

Depending on your situation, 4% might feel like too much or too little. You can adjust the percentage every year, up or down, depending on the depth of your income sources and how well your investments perform.

The key to the success of this recommendation: **Don't spend more than your money earns.** For example, if your portfolio earns an average 3% return per year, withdrawing 4% may deplete it too quickly.

## USE A BUCKET STRATEGY FOR THE LONG HAUL

A bucket strategy divides your savings into three “buckets,” based on a three-stage time horizon:

**Bucket 1 – Now.** This bucket holds the cash you'll need for living expenses over the next year or two. You're prioritizing safety over earnings here, so the money in this bucket will be stashed in an FDIC-insured bank or money market account (note: a money market account that you open at a bank is different from a money market *fund*, which is an investment). The idea is that



you'll want easy access to this money whenever you need it. And as money flows in from your income sources, you'll deposit it here.

**Bucket 2 – Soon.** The second bucket will generate reliable income from relatively conservative sources such as bonds, laddered bank CDs, high-performing money market funds, and blue-chip preferred stocks (if you're willing to take a little risk). This bucket contains money you expect to need in three to five years. If you own an immediate annuity with guaranteed income (see STEP 1), you may not need to hold as much money in this bucket.

**Bucket 3 – Later.** Your third bucket collects money you don't expect to need for at least five years. Here, the focus is on growth, so the bucket will include long-term investments such as stocks and real estate. You can take more financial risks in this bucket because there's time for recovery should any of the holdings lose value.

#### **How the buckets work together.**

As you spend down your "Now" bucket, you'll periodically replenish it from your "Soon" bucket, and refill that with funds from your "Later" bucket. Practically speaking, it's easiest to maintain separate accounts for your buckets; just make sure that you can easily transfer money from one bucket to another without a big lag or high fees.

To implement the system on your own, explore low-fee bond and fixed-income mutual funds or ETFs for your "Soon" bucket, and stick with broad market index funds for your "Later" bucket. Or, consider working with a trusted financial adviser (see STEP 6) to help plan the best approach.

The bucket strategy's strength is built-in diversification. The focus on specific asset classes in each bucket ensures that you won't be over-invested in any one type, which lowers risk.

## **PRESERVE SAVINGS WITH TAX-SMART WITHDRAWALS**

Income taxes come into play as you start taking money out of your retirement accounts. To minimize the inevitable tax bite, time withdrawals strategically by using this three-part sequence.

**First**, take all RMDs from retirement plans (traditional IRAs and 401(k), 403(b), and 457(b) plans) to avoid the steep IRS penalty. For traditional IRAs, you can pull the whole RMD from a single account, but it must be based on the total balance of all your qualified accounts. If you have several 401(k)s, however, you must calculate and withdraw the RMDs separately from each 401(k) account.

**Second**, pull money from any taxable accounts. Since you pay taxes on the earnings in regular savings and investment accounts every year anyway, it makes sense to withdraw from them next. That way, you won't be adding extra taxable income and increasing your tax bill.

**Third**, take any withdrawals (beyond RMDs) from tax-deferred and tax-free accounts (such as Roth IRAs) last. This allows your money the most uninterrupted time to keep growing. Draw down these funds only when the combination of RMDs and taxable account withdrawals falls short of your monthly expenses.

## **TAKE-AWAY ACTION STEPS**

- **Read "How to Implement the Bucket System" at [Kiplinger.com](https://www.kiplinger.com).**
- **Check out the effect different spend-down rates will have on your portfolio with the Retirement Withdrawal Calculator, a free tool on the American Institute for Economic Research website at [AIER.org](https://www.aier.org).**
- **Get specific guidance about retirement and taxes at [IRS.gov/individuals/seniors-retirees](https://www.irs.gov/individuals/seniors-retirees).**

# STEP 5: Manage Medicare wisely

**E**ven if you're already enrolled in Medicare, it's important not to overlook the annual opportunity to review coverage and change plans. Plus, if you or a spouse continued working after age 65 and still have health insurance through an employer, you may have delayed your Medicare sign-up. Let's look at the details of both situations.

## UNDERSTAND THE FUNDAMENTALS

As you know, basic Medicare coverage includes Part A (which covers hospitalization and is premium-free for most people) and Part B (which covers doctor visits and outpatient services, and has a monthly premium). You are eligible to enroll in Medicare at age 65. If you're already receiving Social Security benefits, you're enrolled in the premium-free Part A automatically.

If you haven't claimed Social Security benefits, enrollment in Medicare isn't automatic. If neither you nor your spouse has employer health coverage, you should sign up for both Part A and Part B. Go to [SSA.gov/Medicare](https://www.ssa.gov/Medicare) to enroll three months before or after the month you turn 65—even if you aren't signing up for Social Security benefits.

If you or your spouse is still working and you have employer coverage (COBRA coverage does not count), you may be able to delay signing up for Medicare Part B until your employer coverage ends. But beware: You must enroll within eight months after this coverage ceases or you'll face a lifetime penalty in the form of a higher premium for Part B coverage. The penalty amounts to 10% of the current Part B premium for every year you should have been enrolled in Part B but were not!

Your ability to delay also depends on your employer's size. If your employer has fewer than 20 employees, then Medicare typically becomes your primary coverage at 65, and you generally need to sign up then to avoid coverage gaps.

Once you enroll in Part B, you also have the option to add:

- Medigap (a supplemental policy for standard Medicare). If you buy coverage within six months of enrolling in Part B, you can get any Medigap policy available in your area. After six months, Medigap insurers can decline coverage or charge more because of pre-existing conditions.
- Part D prescription drug coverage.
- Medicare Advantage (Part C). Instead of getting Medigap and Part D coverage, you could get both your medical and prescription drug coverage from a private insurer through a Medicare Advantage plan.

## EXERCISE YOUR RIGHT TO CHANGE COVERAGE

Every year, you have the opportunity to change, add, or drop coverage for Part D or Medicare Advantage plans during open enrollment season. Even if you've been happy with your plan, it's wise to check out your options every



year. Your prescription drugs or health needs may have changed, the plans may have changed their premiums and coverage, and new plans may have entered or left the business in your area.

### OCTOBER 15 TO DECEMBER 7

During the open enrollment period, you have the option to:

- Switch your Original Medicare plan to a Medicare Advantage Plan, or vice versa.
- Swap one Medicare Advantage Plan for another.
- Change your Medicare Part D prescription drug coverage

### JANUARY 1 TO MARCH 31

During this additional open enrollment period, if you already have Medicare Advantage coverage you can make one of the following changes:

- Switch from one Medicare Advantage Plan (with or without prescription drug coverage) to another.
- Drop your Medicare Advantage Plan and return to Original Medicare, with the option of signing up for a Part D prescription drug plan (however, this does not guarantee that you will be able to get a Medigap policy).

### PLUG COVERAGE GAPS

Medicare has deductibles and co-payments and doesn't cover prescription drugs, so most people buy additional coverage to fill in those gaps.

As discussed previously, choices include a Medicare supplement policy (also called Medigap), which covers deductibles and co-payments, and a Part D policy, which covers prescription drugs. Or you can enroll



**The standard Medicare Part B monthly premium is \$135.50 in 2019. Find more information about out-of-pocket expenses at [Medicare.gov/your-medicare-costs](https://www.medicare.gov/your-medicare-costs).**

in a Medicare Advantage plan (called Part C), which provides both medical and prescription drug coverage from a private insurer.

But how do you know which option is right for you?

Medigap policies usually have higher premiums but fewer out-of-pocket costs than Medicare Advantage plans do. And you can use any doctor, hospital, or other provider that accepts Medicare.

Medicare Advantage plans are run by private insurers and offer the HMO or PPO coverage that you may be familiar with from an employer plan. Some plans charge nothing beyond the Medicare Part B premium, but they tend to have more out-of-pocket costs and a limited network of doctors and hospitals.

Compare current costs and coverages for all the Medicare Advantage and Part D plans in your area at [Medicare.gov/find-a-plan](https://www.medicare.gov/find-a-plan). Then, scroll down to find information on Medigap policies under "Additional Tools."

### TAKE-AWAY ACTION STEPS

- **Get help navigating Medicare choices** by checking out these sites:
  - The local State Health Insurance Assistance Program in your area, at [Shiptacenter.org](https://www.shiptacenter.org).
  - Free tools available from the nonprofit Medicare Rights Center, at [Medicarerights.org](https://www.Medicarerights.org).

# STEP 6: Get trustworthy advice as you age

**A**t this stage of life, you may need a more holistic approach to financial management. A trusted team of advisers—such as a financial adviser or counselor, an attorney, and a tax preparer—can help you make the increasingly complex decisions that often arise during retirement. For example, advisers can help you navigate issues such as:

- **Money management**, to help you implement your bucket system and advise you on the best ways to invest and preserve your savings.
- **Asset protection**, to keep your investments, savings, and home safe from lawsuits (if you're involved in a car accident, for example) and creditors.
- **Fraud protection (and recovery)**, to keep you safe from scam artists and identity theft.
- **Estate planning**, to make sure your heirs receive everything you want them to in the most tax-efficient way.
- **Healthcare planning**, to help ensure key legal documents (such as a healthcare power of attorney) are in place and confirm adequate health coverage and insurance.

## CHOOSE A FIDUCIARY

When it comes to financial advice you can trust, always look for a fiduciary. Fiduciary professionals are legally and ethically bound to put your interests first in every circumstance and avoid any potential conflict of interest.

Certain professionals—such as attorneys, CPAs, and doctors—always have a fiduciary obligation to their clients. In other professions, including insurance and financial services, the lines aren't as clear, and sometimes state laws come into play, so make sure to ask directly whether an adviser is a fiduciary. In addition, since fiduciaries work for fee-based compensation, their pay is the same no matter which investments you make.

## PROTECT YOUR LEGACY

Talking with family members about plans to preserve, protect, and maintain your estate is another crucial step to make sure your wishes are carried out the way you envision. To keep your adult children informed, make sure to provide them with:

- 1 Copies of important legal documents, which may include a durable power of attorney for finances, an advance healthcare directive, and a copy of your most recent will.
- 2 Names and contact information for all the professionals on your “advisory panel.”
- 3 Access to your Social Security number, driver's license number, Medicare ID number, bank and brokerage accounts, passwords, and other crucial identifying information.

In addition, make time for a conversation about preferences for long-term care, should you need it. Tell family where and how you would like to live if you can no longer live independently (such as at home with

a home health aide, with your children, or in an assisted living facility). Give them a list of your current doctors and all medications you take. And discuss your wishes for final arrangements.

Update these plans as circumstances change. And as a general rule, review your estate documents every three to five years.

## TAKE-AWAY ACTION STEPS

- **Find a trusted adviser.** Check out descriptions for common adviser credentials on the Financial Management Association website at [FMA.org/finance-certifications](https://www.fma.org/finance-certifications).
- **Verify a specific adviser.** Your State Securities Regulator can confirm an adviser's licensing and education. Find your state regulator on the North American Securities Administrators Association website at [NASAA.org](https://www.nasaa.org).

## STEP 7: Consider your location

**W**here you live can have a big impact on how long your nest egg may last. For example, moving from a state with high income taxes to one with low or no income taxes can save you thousands of dollars every year.

So if you're thinking about relocating, it's important to weigh factors like these: state and local taxes, cost of living, availability of senior housing and co-housing, healthcare and wellness facilities, transportation options, community engagement and public amenities, and crime rates.

Once you have some potential retirement locations in mind, evaluate each one using tools like these:

- **BestPlaces City Compare**, which rates many factors—from average number of rainy days to property taxes to air quality, at [bestplaces.net/compare-cities](https://www.bestplaces.net/compare-cities).
- **AARP Livability Index**, which scores neighborhoods and communities using seven factors, at [livabilityindex.aarp.org](https://www.livabilityindex.aarp.org).
- **AARP Network of Age-Friendly States and Communities**, a list of towns, cities, counties, and states that pledge to make their communities great places for all ages, at [AARP.org](https://www.aarp.org).
- **Bankrate's Cost of Living Calculator**, which estimates affordability of different locations by housing, food, and lifestyle expenses, available at [Bankrate.com/calculators](https://www.bankrate.com/calculators).
- **Kiplinger's State-by-State Guide to Taxes on Retirees** identifies the most and least tax-friendly states for retirement income, property, and purchases, available at [Kiplinger.com](https://www.kiplinger.com).

## MAKE YOUR NEST EGG LAST

Now that you've reviewed the many options for continuing to preserve savings and bolster income, you're ready to focus on the strategies that make the most sense for your situation. By fostering a sustainable financial plan, you'll be able to fund the retirement life you envision.

ABOUT

WHEN I'M

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How we live and thrive in retirement is changing dramatically in the 21st century. **When I'm 65** is a groundbreaking documentary, produced by Detroit Public Television, and community engagement program that examines the choices all Americans must make today to plan for a financially secure and fulfilling future.

*“When I'm 65 offers jargon-free explanations and can-do action plans for all ages—Millennials, Gen Xers and Baby Boomers alike.”*

*—Don Blandin, CEO and President of Investor Protection Trust*

Watch the documentary and find upcoming workshops and conferences at [www.WI65.org](http://www.WI65.org), [facebook.com/WI65project](https://facebook.com/WI65project), or [twitter.com/WI65project](https://twitter.com/WI65project).



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