Financial Fitness

The Key to Making Your Money Last

To live a long life, you'll need a healthy supply of money to go the distance with you. The risk of outliving your money is called "longevity risk." Begin early and follow these good financial habits, and you'll increase the likelihood that your money will last as long as you will.

Set clear goals—short-term and long-term goals—and create a financial plan to reach each goal. The plan needn't be long or formal, just a written plan of action. Try to stick with the plan, even though the market sometimes provides a rocky ride.

Eliminate debt. Maintain a healthy balance sheet and a clean bill of financial health. If you accumulate debt, especially high-interest rate credit card debt, pay it off as soon as you can.

Live within your means. Pay off all monthly bills. Don't overspend. One healthy way is to track all your spending for a month, evaluate which expenses are truly necessary and then cut out needless spending.

Save diligently, invest wisely. Start saving early and keep putting time and the power of compounding on your side as you build long-term financial strength. Understand that longevity risk and inflation risk (having your purchasing power erode over time) are bigger threats to your long-term well being than short-term market movements.

Pay yourself first. Make it your top priority to save for the future throughout your working years.

Grow your net worth. Over time, as you save more and pay off debt, particularly large debt, such as a mortgage, your net worth—your assets minus your liabilities—will grow. Review your net worth each year and track your progress.

Monitor your asset allocation. Set and maintain an appropriate mix of investments throughout your life. Your needs, goals and risk tolerance may shift gradually as you age, but you will always benefit from broad diversification.

Conduct an annual financial check-up. Review your overall financial well being, with a particular focus on your investments. Evaluate how well they perform compared with similar investments. And review your asset allocation, rebalancing it as needed.

Protect your family—in case anything happens to you. This includes life, health and disability insurance as well as keeping a will up to date.

Withdraw safely. To give your money a good chance of lasting as long as you will, withdraw it at a "safe" rate. Limit annual withdrawals to 4%–5% of your initial retirement account balance when you retire. Then adjust for the rate of inflation. This will give your nest egg a better chance of lasting 30 years or longer.

Protect against long-term care costs. Being ill for a long period can be a big financial burden. With health care costs tending to rise faster than overall inflation, it can be worthwhile to investigate long-term care insurance. It can protect your assets and spare your loved ones from having to be your full-time caregivers.

Annuitize some money. To create a lifetime stream of income, you may wish to consider purchasing a fixed annuity with some of your savings. Calculate your fixed monthly costs. Subtract your Social Security benefits. Then, purchase an annuity to cover the difference. Use the rest of your savings to pay for more discretionary and variable items.

Women Face Higher Longevity Risk

While everyone needs to be diligent in making sure their money lasts as long as they do, women face a higher longevity risk for several reasons.

1. American women live three or four years longer than men on average.[5]
2. Despite efforts to create pay equity in the workplace, women still earn just 80 cents for every dollar that men earn, according to the U.S. Department of Labor. Because they earn less, they save less overall.
3. Many women take some time off from their career to raise a family and/or care for elderly parents. This reduces the time they contribute to a retirement plan or receive an employer's contribution. It also affects the size of their Social Security benefits.
4. Women are more likely to work in part-time jobs that don't qualify for pension coverage.

For all of these reasons, women need to make an extra effort to save and accumulate more money and make it last longer.

5 Source: www.cdc.gov/nchs/data/hus/hus07.pdf#027