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Making Your Money Last as Long as You Live

Chip Litherland for The New York Times

GOOD LIFE Cathy and Bruce Odlaug, both 67, play golf near their vacation home on Sanibel Island, Fla. They started saving for retirement 30 years ago.

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EVEN for people who have built up a decent nest egg, deciding how to use it is one of the demands of early retirement. The good life may be within reach, but the financial logistics still require careful attention.

“We were thinking, We’ve got the time now, but how do we finance it?” said Cathy Odlaug, recalling how she felt two years ago when her husband, Bruce, went part time at his Minneapolis law firm, giving up his partnership and 60 percent of his income.

In an era when fewer Americans are getting pensions, Mrs. Odlaug’s concern isn’t unusual. Most retirees have to create their own income streams, usually through a combination of Social Security and distributions from retirement savings, including I.R.A.’s and 401(k) accounts.

“Unless you’ve actually lived through it personally, you don’t fully appreciate some of the nuances of the deaccumulation phase,” said Sheryl Garrett, founder of the Garrett Planning Network, which creates financial plans for middle-income people. “There’s a lot of angst around, How am I going to get my paycheck in retirement?”

Some differences in planning are personal. For instance, a couple planning to retire at 55 may need a paycheck-bridge strategy before they become eligible for Social Security at age 62, said Michael Kitces, director of financial planning for the Pinnacle Advisory Group in Columbia, Md. If the couple are in line for an inheritance or are planning to sell a second home, they can spend more earlier in retirement than might otherwise seem prudent, he added.

Other variations are economic. An extended period of stock-market gains may let some retirees increase their withdrawals. A couple of down years can have the opposite effect.

These factors must all be weighed in a paycheck replacement plan.

“The mathematics of this are beyond what most people could really be sophisticated at,” said Roger Ibbotson, a professor at the Yale School of Management and an expert on investments who has helped mutual fund companies advise retirees. “It’s not that they’re stupid. It’s just that it’s complicated.”

To give retirees some new tools, two of the biggest fund companies, Fidelity and Vanguard, have introduced mutual funds intended to make it easy for retirees to make systematic monthly withdrawals.

Fidelity’s Income Replacement funds use target dates to determine the period over which the portfolio will be drawn down. For instance, the Fidelity Income Replacement Fund 2038 is meant to provide retirees with monthly income for the next 30 years. The withdrawal rate starts at 5.01 percent in the first year and moves up gradually, to 6.30 percent in 2018 and 10.29 percent in 2028. In 2038, retirees get whatever is left, divided into 12 monthly installments, and the fund is depleted.

Vanguard’s three Managed Payout funds are also designed to let retirees withdraw a fixed amount from their portfolios — up to 7 percent — in monthly installments. The difference is that the Vanguard funds do not have an expiration date; their goal is to preserve the retiree’s capital indefinitely.

Neither the Fidelity funds, which became available last fall, nor the Vanguard funds, which open to investors today, guarantee that they will meet their goals.

“There are still some risks to it,” Mr. Kitces said. But he said the products, with their promise of steady monthly cash flows off of diversified, professionally managed portfolios, are a boon to retirees seeking paycheck replacement. “These funds are a tremendous fit for an underserved marketplace,” he said.

Fidelity and Vanguard are working from research that says portfolios can last for decades if retirees start with conservative withdrawal rates and make adjustments, usually up but sometimes down, depending on performance.

Jonathan Guyton, a Minneapolis adviser who has worked with the Odlaugs since 1999, said that 5.4 percent was the safe initial withdrawal rate for a retirement portfolio allocated two-thirds to equities and one-third to fixed-income investments. Such a portfolio will last for 40 years, provided certain “guardrails” are observed, and can provide a major part of a retiree’s income, said Mr. Guyton, who has written about safe withdrawal rates for The Journal of Financial Planning.

Annuities are another way to generate paychecks in retirement. After an initial lump-sum payment, annuities can be structured to pay a guaranteed monthly income stream for life, much like a pension.

Ms. Garrett of the Garrett Planning Network recommends that retirees use annuity payments along with Social Security checks to cover all their required basic monthly living expenses. If retirees have money left over, she said, they should invest it in growth stocks.

That is essentially what Phyllis Visalli is doing. Mrs. Visalli, 73, of Wildwood Crest, N.J., owns two annuities, which she bought with a portion of the $650,000 she got from selling a motel she owned on the Jersey Shore.

Between her two annuities and Social Security, Mrs. Visalli’s income is approximately $3,430 a month, or about $41,000 annually. Her income will go up again this summer, when she starts getting $1,000 monthly checks from her son in return for selling him the other small motel she owned.

Mrs. Visalli also has more than $300,000 in a brokerage account, diversified among stocks, bonds and some real-estate investment trusts. She does not take money from the brokerage account on a regular basis, but could if she wanted to, said Martha Schilling, a financial adviser in Dresher, Pa.

Besides the regular paychecks they set up for themselves, retirees who can afford to should create a reserve fund they can tap for unbudgeted expenses, like home repairs or spur-of-the-moment trips, experts said.

For the Odlaugs, who are both 67 now, such a fund also resolved differences about money that surfaced after Mr. Odlaug cut back his hours.

With a father who died at 53 and a grandfather who died in his 40s, Mr. Odlaug was less worried about outliving his money than he was about enjoying his new free time, including taking some European golf vacations. Mrs. Odlaug, a careful budgeter, was more cautious.

Mr. Guyton suggested they take 5 percent of their liquid assets and create a discretionary fund. The fund is separate from the monthly paychecks the Odlaugs take to cover their living expenses, the quarterly paychecks that help them with real-estate taxes on their Minneapolis home and their Florida condominium, and the single annual withdrawal they use to buy insurance for long-term care.

“It’s been a help for Cathy’s peace of mind,” Mr. Odlaug said. The couple have dipped into the fund to send money to their children, travel to England and pay for elective lens implant surgery for Mrs. Odlaug.

The Odlaugs started saving for retirement 30 years ago, after a windfall from one of Mr. Odlaug’s commercial real-estate cases, and are in good shape financially. But Mr. Guyton said they needed to remain open to “a midcourse correction” if something outside their control, like a long market downturn, disrupts their plans.

Mr. Guyton does not usually have to spend much time on that prospect with his retired clients.

“It resonates,” he said. “Retirees have had a lot of life experience, not all of it good.”