

Outliving Your Savings: The Hidden Dangers of Conservative Retirement Planning

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Discover the alarming statistics on retirement savings depletion and why retiring at 65 poses significant risks. Learn strategies to protect your financial future.

By Rob Edwards

Did you know that about **45%** of Americans who plan to retire at age 65 face a high risk of depleting their nest egg before the end of their lifetime? That's nearly a coin flip for most people, and it's especially concerning for single women, 55% of whom are likely to run out of funds. On a slightly brighter note, the percentages are a bit lower for single men (40%) and couples (41%). Still, the idea that nearly half of Americans might outlive their retirement savings is a wake-up call.

But, if you can hold off retiring until you're 70, that chance drops to 28%. When we look at different groups of people, single women tend to have a higher risk (36%), followed by couples (26%) and then single men (21%). So, while the overall 28% for retiring at 70 is still a concern for some, it's much better than retiring at 65.

And, if you retire at 62, your risk of running out of money spikes to 54%. One group that is generally better off is public-sector workers with pensions. Even if they retire at 65, only about 29% are likely to run out of money.

Life after age 65 is often longer and more expensive than people realize. And while it may seem sensible to shift to safer, more conservative investments as the years go by, doing so too soon can create its own hazards.

Retirement Today vs. Twenty Years Ago

Not that long ago, retirement planning was fairly straightforward. At age 65, a large share of workers could count on a pension check that would sustain them for a modest number

of “golden years.” Life expectancy was lower, and people spent fewer years in retirement. Fast-forward to today and things are very different. Traditional pensions are quickly being replaced by 401(k)s, IRAs and other savings vehicles that put more responsibility on individuals to build their own financial safety net.

On top of that, people are generally living much longer than they used to. Better health care, technological breakthroughs and growing wellness awareness mean that a 65-year-old today has a realistic chance of living 20 or even 30 years past retirement. According to the U.S. Social Security Administration, if someone is already 65, there’s roughly a 50% chance they’ll reach 85. Among couples, there’s a one-in-five chance that at least one partner will see 95.

That extra time on earth means more years to spend with family, pursue passions or travel. Yet, it also makes retirement planning more challenging. Two or three decades of living expenses, health care costs and everyday bills can take a massive bite out of even well-funded portfolios. Not to mention, inflation doesn’t slow down in retirement. Even if it’s only a few percentage points each year, it adds up fast and chips away at the real value of savings.

Are Your Investments Built to Last?

One of the biggest shifts in modern retirement planning is the realization that being too conservative can be a problem. For a lot of people, the first instinct after finishing full-time work is to batten down the hatches, which means holding mostly cash or low-risk bonds and avoiding the roller coaster of the stock market. At face value, that might sound logical because no one wants to see their savings shrink suddenly because of market turbulence. But the data tells a different story.

Over the long run, stocks have historically outperformed bonds and inflation. This is not to say equities don’t fluctuate; they do, sometimes violently. Yet, for anyone looking at a retirement horizon of 20 or 30 years, the volatility of stock markets might be a worthwhile trade-off compared to the chance of running out of funds entirely. After all, what’s a bigger risk: seeing your portfolio take a temporary hit in a market dip or watching your purchasing power (and ultimately your savings) dwindle slowly as the years go on?

When retirement could stretch for decades, that volatility may be an acceptable price to pay for better returns over time. Of course, the right balance between stocks and bonds will vary from person to person. The key is recognizing that “more conservative” does not always mean “safer,” especially when trying to keep up with living costs far into the future.

Giving Your Portfolio the Longevity It Needs

Retirement in the 21st century is all about longevity. With so many people enjoying longer lifespans, the challenge is making sure their portfolios can go the distance. This boils down to two major factors: life expectancy and rising costs.

1. Realistic Life Expectancy

The data says clearly that a 65-year-old often has decades ahead. This is especially relevant for single women, who generally live longer than men. Morningstar's projections that 55% of single women might run out of money should be a red flag for anyone not building enough growth into their portfolio. Even for couples, the chances of one person living into their mid-90s are significant. If a nest egg has to last that long, it needs to keep growing—or at least stay ahead of inflation.

2. Inflation and Other Rising Costs

Nobody likes to think about inflation, but it's there, year after year, driving up the price of everything from groceries to medical care. Retirees are particularly vulnerable since they may be living on a fixed or slowly growing income. A portfolio that doesn't produce enough returns to stay ahead of inflation is going to feel like a sinking ship over 20 or 30 years.

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Finding the right mix of investments to handle those challenges is part art, part science. Several strategies could be:

- **Working Longer**

Extra working years not only mean continued income and more savings, but they also translate into bigger Social Security benefits. It's not always an option for everyone, but waiting even one or two more years can improve the math considerably.

- **Planning for Health Care**

Longer life means higher chances of facing medical expenses, including costly procedures or long-term care. It might be wise to factor in long-term care insurance or other protective measures. That can help retirees keep their main investment portfolio intact for routine expenses—and less vulnerable to large, unexpected health care bills.

- **Exploring Income Guarantees**

Some retirees use annuities or other guaranteed-income products to cover basic monthly costs. This helps create a safety net, so there's always some money coming in, even if markets take a downturn. It's not everyone's favorite strategy, and there are fees and trade-offs to consider. But it can be a game-changer for those uneasy about market volatility yet still wanting room for growth in their other investments.

- **Ongoing Check-Ins**

Retirement planning doesn't end the day you stop working. Life changes can alter the

financial equation. Periodically reviewing and, if needed, adjusting the plan is part of ensuring that a portfolio remains strong and aligned with one's life stage.

Why “Too Conservative” Can Be Risky

Many people assume that growing older means they should dial down the risk. After all, isn't a quieter life full of safe, stable returns the whole point of leaving work behind? Helping ensure the reality, though, is more complicated. Slow and steady returns might work for five or ten years of retirement. But for two or three decades, low returns can gradually erode a portfolio when inflation and unexpected costs keep mounting.

Think about what happens if someone invests only in bonds that yield a meager return. Over 20 years, everyday expenses continue to climb, but the portfolio doesn't grow enough to keep pace. By the time they reach their mid-80s, they could find themselves cutting out small pleasures or even skipping important home repairs. Go another five or ten years under those conditions, and the picture can become genuinely dire, possibly forcing these people to rely on family or government assistance.

It's that slow bleed that can catch retirees off guard. It's far less dramatic than a major stock market tumble, so it often doesn't prompt action early on. As time goes by, though, it can be just as damaging—if not more so—because inflation is forever, and costs in areas like health care can spike without notice.

More Years, More Planning

Retirement used to be a relatively brief phase, but now it can span decades. That's wonderful news in terms of lifestyle and opportunities but challenging news for anyone who hasn't fully planned for a longer horizon. Cautious investing can be wise to a point, but going too far down that path can lead to a slow erosion of purchasing power and savings.

Instead, specialists (including myself) generally advise striking a balance between stability and growth. For some, that might mean gradually scaling down stock exposure over time while still keeping a slice of the portfolio in equities. For others, it might mean exploring annuities or other income guarantees. And for those with a bit more flexibility, delaying retirement by even a few years can make a huge difference, shrinking the odds of running out of money from nearly one-in-two to closer to one-in-four.

Ultimately, deciding how to invest in retirement is a personal process, influenced by everything from family history and health to risk tolerance and financial goals. Still, the data shows that many Americans face significant risks of outliving their savings if they set the retirement clock at 65.

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Rob Edwards is a Managing Director and Senior PIM® Portfolio Manager at Edwards Asset Management. A nationally recognized adviser, Rob guides high-net-worth families through the complexities of wealth – helping them to preserve, grow and enjoy wealth through every stage of life. Edwards Asset Management has offices in Naples, Florida and Fort Lauderdale, Florida.

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