How to Retire on a Shoestring

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You often have to be a little frugal to make a retirement budget work. The $27,798 median income for American households headed by someone 65 or older doesn't offer much breathing room when gas, groceries, and out-of-pocket healthcare costs all are conspiring to make retirement more difficult.

The typical Social Security recipient gets only $1,050 a month before the Medicare premium is deducted—and Social Security is the largest source of income for most retirees. Here are some ways to adjust your retirement lifestyle to stay on budget.

Work an extra year. The biggest retirement decision is when you retire. Between the ages of 62 and 70, "working one more year typically raises annual income 8 to 9 percent," says Eugene Steuerle, a senior fellow at the Urban Institute. That's because delayed claiming of Social Security allows you to get higher monthly payments, your retirement accounts have an extra year to grow, you're reducing the number of years your savings must last, and perhaps you can even tuck away a little bit more money.

It also helps if you can retire at a time when your investments are doing well. "If you retire in a down market, you use up more of your financial assets than you do if you retire in a healthy market," says James Hotvet, a certified financial planner in Pasadena, Calif. "If you've got an option to delay retirement, it's probably not a bad idea to do it right now."

Spend taxable dollars first. You can begin withdrawing money from your IRA or 401(k) penalty free at age 59 ½, but that doesn't mean you should. You'll generally want to draw down taxable accounts before tapping tax-advantaged assets. "If you have a 401(k) or IRA, you will want to dip into those funds only as a last resort, because, left untouched, the earnings on these amounts continue to accumulate on a tax-deferred basis," says Mark Iwry, a Brookings Institution senior fellow and principal of the Retirement Security Project. Beginning at age 70 ½, everyone with a traditional IRA or 401(k), unless continuing to work, must take what is known as an annual required minimum distribution or face a hefty penalty. These distributions are taxed as income (except for Roth IRAs or Roth 401(k)'s, where taxes have already been paid on contributions), so you may want to withdraw above the minimum in years when you are in a lower tax bracket.

Slash transportation costs. The typical senior between the ages of 65 and 74 spends $7,481 annually on transportation costs, according to the Labor Department's most recent Consumer Expenditure Survey. But this is one of the easiest areas in which to slash costs. Many retirees report driving less (56 percent), and a few report taking public transportation (5 percent) and carpooling more often (3 percent), a Principal Financial Group survey conducted by Harris Interactive found.

Downsizing from two cars to one or to a less flashy model can slash insurance premiums. Car maintenance, such as properly inflated tires, tuneups, oil changes, and a new air filter, can decrease fuel costs. Claudette Price, a 67-year-old retiree in Madison, Ill., likes to consolidate all her errands into a single trip to save on fuel. Walking and biking are also great ways to get exercise on the go.

Even sensible driving—for instance, decreasing your speed, avoiding idling, turning down the air conditioning, and using cruise control on the highway—can help you save up to $115 per year on gasoline costs, according to the nonprofit Alliance to Save Energy. Jane Kilbea, 62, of Highland, Ill., is convinced that driving slower to work each day and reducing speed for yellow lights instead of racing though them allow her to use about 2 ½ fewer gallons per fill-up, a savings of more than $8, she estimates. "It seems to calm me, too," Kilbea says of her new driving strategy. "But it seems to make other people a little angry because I go a little slower."

Comparison shop. About three quarters of retirees are spending as much as $100 a week more on groceries now than last year, according to a Principal Financial survey. But there are lots of little ways to save a few dollars on everyday expenses that can add up over the course of a year. Some retirees are compensating by eating out less often (49 percent), buying store or generic brands (47 percent), clipping coupons (44 percent), giving up convenience items or premium brands for lower-cost alternatives (35 percent), and bargain hunting at multiple stories in search of sales (34 percent), Principal Financial found.

Kilbea frequents discount stores, watches for grocery store sales, uses coupons, and tries not to eat out too often to stay on budget, even while she continues to work 30 hours per week as an aging specialist. She also changes her furnace filter regularly, unplugs her toaster, and has her TV on a power strip so it won't waste energy when not switched on. She's gradually switching all the light bulbs in her house to energy-efficient compact fluorescent bulbs.

Downsize your house. Housing, including mortgage interest, property taxes, maintenance, utilities, and furnishings, costs $13,273 annually for the average senior between the ages of 65 and 74, according to the Department of Labor. But housing prices vary greatly by region. "If you're living in a really expensive neighborhood, you can look around a little farther out or move into a rental apartment," says John Howell, author of *Retirement on a Budget*. "Your utilities will also be less because it costs so much less to heat a 10-apartment complex than individual houses."

Or you could move to an area with a more affordable cost of living and lower property and income tax rates. Hotvet recently had a client sell a pricey home in Pasadena, Calif., move to Oregon, and pocket the difference. "I've been to all 50 states," he says. "And there's lot of nice neighborhoods in the other 49 states that cost a lot less than California."

Tap your home. The value you've built up in your home can be tapped for emergencies. "If you own your home outright, you can start to draw down the equity of your home through a reverse mortgage as a solution of last resort," says Jean Setzfand, the director of financial security at AARP. A reverse mortgage is a loan against your home that doesn't have to be paid back as long as you live in that house. Homeowners 62 and over are eligible for reverse mortgages. After you pay a variety of fees on the loan, you can get a lump sum, monthly payments, or a credit line based on the value of your house.

"If you don't need the money today, you might want to wait until you are older because the more equity you have in your house, the more money available to you to draw on," says Barbara Stucki, director of home equity initiatives for the National Council on Aging. Most financial advisers agree that reverse mortgages should be employed only in extraordinary circumstances and not be used as an excuse for failing to save.

Get all the benefits you're entitled to. Most people know that they can sign up for Social Security beginning at age 62 and Medicare at age 65. But if you truly need extra money to help pay for prescription drugs, healthcare, and utilities, the National Council on Aging's BenefitsCheckUp.org can help you find and navigate the complex eligibility rules for federal, state, and local programs that you might not be aware of.

Find low-cost or free activities. Retirees have more leisure time, so entertainment expenses can actually increase in retirement. But you don't always need to go to a movie. Instead, David Smidt, president of SeniorDiscounts.com, recommends checking out national parks and museums, especially those that offer free or low-cost admission to seniors. In many cities, seniors can also pay lower rates for public transportation. "Especially in local shops and stores, they may not advertise a senior discount, but if you ask for one, sometimes they'll give you that 10 percent off anyway," Smidt says. Another reason Smidt says you have to ask for discounts: "Employees don't want to presume that someone who is 40 years old is a senior."