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What are the alternatives?

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Conventional wisdom says you can take 4% from your savings the first year of retirement, and then that amount plus more to account for inflation each year, without running out of money for at least three decades.

This so-called 4% rule was devised in the 1990s by California financial planner William Bengen and later refined by other retirement-planning academics. Mr. Bengen analyzed historical returns of stocks and bonds and found that portfolios with 60% of their holdings in large-company stocks and 40% in intermediate-term U.S. bonds could sustain withdrawal rates starting at 4.15%, and adjusted each year for inflation, for every 30-year span going back to 1926-55.

Well, it was beautiful while it lasted. In recent years, the 4% rule has been thrown into doubt, thanks to an unexpected hazard: the risk of a prolonged market rout the first two, or even three, years of your retirement. In other words, timing is everything. If your nest egg loses 25% of its value just as you start using it, the 4% may no longer hold, and the danger of running out of money increases.

If you had retired Jan. 1, 2000, with an initial 4% withdrawal rate and a portfolio of 55% stocks and 45% bonds rebalanced each month, with the first year's withdrawal amount increased by 3% a year for inflation, your portfolio would have fallen by a third through 2010, according to investment firm T. Rowe Price Group. And you would be left with only a 29% chance of making it through three decades, the firm estimates.

That sort of scenario has left many baby boomers who are in the midst of retiring riddled with angst. "The mind-blowing aspect of retiring is all these years you're accumulating and accumulating, and then you need to start drawing down, and you have no idea how to do that," says Al Starzyk, a 66-year-old retired printing executive in Williamsburg, Va.

So, if you can't safely withdraw at least 4% a year from a balanced portfolio of equity and bond funds, what do you do?

Use annuities instead of bonds

Pairing the most plain-vanilla type of annuity—called a single-premium immediate annuity—with stocks, retirees can generate income more safely and reliably than if they use bonds for that piece of their portfolio, says Wade Pfau, a professor who researches retirement income at the American College of Financial Services in Bryn Mawr, Pa.

To arrive at that conclusion, he plotted how 1,001 different product allocations might work for a 65-year-old married couple hoping to generate 4% annual income from their portfolio.

Using 200 Monte Carlo simulations for each product allocation, and assuming returns based on current market conditions, the winning combination turns out to be a 50/50 mix of stocks and fixed annuities, Mr. Pfau says. If inflation accelerates more than the markets now expect, inflation-adjusted annuities would become more attractive, he adds.

"There is no need for retirees to hold bonds," he says. Instead, annuities, with their promise of income for life, act like "super bonds with no maturity dates," he says.

But immediate annuities have one big drawback: The buyer loses access to his or her savings in exchange for those guaranteed payments. In other words, if you have a sudden long-term-care need or some other type of emergency, there's no way to recapture a large chunk of cash. As a result, some retirees and their advisers are using variable annuities with guaranteed income benefits instead. These annuities allow investors to withdraw more than the set annual amount in an emergency.

Mark Cortazzo, a certified financial planner in Parsippany, N.J., typically recommends that people preparing to retire figure out their basic, nondiscretionary annual expenses and use a variable annuity with guaranteed benefits to make up for whatever portion of that total won't be covered by Social Security and any pensions. That way, they can pay their bills throughout retirement and afford the risk of investing much of the rest of their savings in stock funds, he says.

"If they've got a guaranteed check that's covering their needs, it's a lot easier for them to stick it out when there's a storm coming" in the stock market, Mr. Cortazzo says

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