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## 5 Keys to Retiring Within 5 Years

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by Emily Brandon  
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To say Americans are feeling lousy about their retirement prospects is a huge understatement. They're feeling downright hopeless. Only 13 percent of adults over 25 are certain they'll be able to live comfortably in their later years, according to a recent survey by the Employee Benefit Research Institute. That's the lowest level of confidence reported since the annual survey began in 1993. And who can blame these dejected retirement savers? The majority of would-be retirees have watched their nest eggs crumble in the market's undoing, and few have the cushion of a traditional pension. Even if stocks return to their prerecession highs in the near future--and that's a big if--traditional retirement will still be tough. That's because would-be retirees are also facing the threats of rising inflation, ballooning healthcare costs, the possibility of outliving their money, and the prospect of another big market drop. Here are some ways to prepare for these challenges:

**Insure against outliving your money.** Once Americans make it to age 65, men can expect to live an additional 17 years and women can expect to live 20 more years. Advances in healthcare could stretch that timeline. Traditional pension plans, Social Security, and annuities all offer protection against the threat of outliving your assets because the payouts last as long as you live. Social Security recipients even have annual cost-of-living increases, which are tied to the consumer price index. Social Security payouts also rise by approximately 7 to 8 percent for each year you delay claiming between ages 62 and 70. That's enough of an incentive for Bill Russell, 62, to delay claiming until he's 66--his full retirement age--to get a higher benefit amount for himself and his wife. "If I should die between now and when I start drawing, I want to maximize my wife's Social Security benefit," says Russell, who lives in Branson, Mo. Spouses are eligible for 50 percent of the higher earner's due if that's more than the amount that can be claimed based on their working record. If either spouse claims Social Security before full retirement age, the checks are smaller. Working longer is the quickest way to pad a retirement account and decrease the number of years over which your savings must be spread. About 72 percent of Americans expect to work after they officially retire, according to the Employee Benefit Research Institute, up from 63 percent in 2008. "Retiring early is just not reasonable for the vast majority of people at 55," says Joshua Itzoe, a certified financial planner, principal at Greenspring Wealth Management, and the author of *Fixing the 401(k)*. "If you work 35 years--and let's assume you live to be 95--you are in retirement longer than you were in the workforce, and that's not feasible."

**Fight inflation.** Some experts say inflation could diminish your purchasing power even more in the future than it does today, largely because of America's ever increasing national debt. One way to guard your portfolio against inflation is by mixing in more asset classes--especially those that don't move in step with the overall market. "Stocks, commodities, and real estate exposure all hedge against inflation really well," says Frank Armstrong, founder of Investor Solutions and coauthor of *Save Your Retirement: What to Do If You Haven't Saved Enough or If Your Investments Were Devastated by the Market Meltdown*. But some planners think stocks--even when used as an inflation-fighter--are just too risky. Instead, they point to treasury inflation-protected securities, which are government bonds that guarantee a rate of return above inflation. The downside is that investors trade the prospect of high returns for that safety. "I think it makes sense to hold a substantial portion of your portfolio in TIPS," says Olivia Mitchell, director of the Boettner Center for Pensions and Retirement Research at the University of Pennsylvania's Wharton School. "You might not make a lot of money, but you won't lose any money."

**Weigh investment risks.** Baby boomers are getting a taste of what their Depression-era parents experienced: the devastating downside of the stock market. "Americans are starting to realize some of the realities of risk that they perhaps should have thought about a long time ago," says Mitchell. "We have gotten lulled into a sense of security. The financial crisis should force us to pay much more attention to how much we can lose." After stuffing their retirement accounts with stocks for more than a decade, workers, on average, held less than half of their 401(k) money in stocks in early 2009, according to the human resources consulting firm Hewitt Associates. That's mostly on account of


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market declines, but it also represents a shift to more conservative investments. "Retirees need to create a decent floor to their living standard by using inflation-indexed bonds and investing in the safest way possible, which is paying off your mortgage," says Laurence Kotlikoff, a professor of economics at Boston University and coauthor of *Spend 'Til the End: The Revolutionary Guide to Raising Your Living Standard, Today and When You Retire*. If investors still want exposure to stocks, Kotlikoff recommends buying low-cost index funds.

**Budget for healthcare expenses.** Even though Medicare kicks in at age 65, it may not be enough to meet retirees' healthcare needs. A 65-year-old couple retiring in 2009 with Medicare insurance coverage will need approximately \$240,000 to cover medical expenses throughout their retirement, up 6.7 percent from 2008, according to a Fidelity Investments estimate that includes deductibles, coinsurance costs, likely out-of-pocket expenses, and some services excluded by Medicare. The figure does not include over-the-counter medications, most dental services, and most long-term care expenses--which could easily cause the costs to rise further. Violet Lewis, 66, of San Marcos, Texas, has had Medicare insurance since she was laid off from her job in a call center in November 2008. Her medications for diabetes cost about \$340 a month out of pocket. "I'm really good at calling the doctor and saying, 'Hey, I need some samples.' You can save a month or two of having to buy some prescriptions that way," she says. Lewis also bought some medications in bulk to take advantage of discounts, and she tries to space out her doctor's visits to avoid too many copays in the same month. She's frugal in other ways, too. She uses [Freecycle](#), a website where people exchange unneeded goods free of charge, and she started a patio garden where she grows her own vegetables. "You can grow so much in 4 square feet, and you get a pretty good meal for your effort," Lewis says. "I bought a little freezer so I could take advantage of the sales and cook and freeze and put away."

**Become frugal.** Although he wasn't planning to retire for seven more years, Milton Beach, 55, a former public affairs manager for Delphi in Kokomo, Ind., was forced into retirement in March. "It wasn't my choice to retire," he says. "I would have worked until I was 62." The next month, Delphi eliminated his retiree health and life insurance coverage. Now, Beach pays about \$720 per month for medical, vision, life, and dental insurance--and he's still 10 years away from qualifying for Medicare. Beach says he's now "recalibrating" his retirement while looking for work. To cut costs, he's switched from name-brand products to generics, and he's given up vacations. "There is no such thing as the golden years where you kick back and relax," Beach says. "If you want to retire, you have to be very conservative and very judicious in terms of paying off bills."

Jeanne Huff, 66, a retired registered nurse, and her husband, Marlin, a retired electronic technician, have been living below their means throughout their lives. The couple owns their West Point, Utah, home, which Marlin insulated to save on heating and cooling costs, and they wear sweaters so they can keep the thermostat low. The Huffs drive an economical and reliable car (a Toyota Corolla), which they paid for in cash, and Marlin changes the oil and performs general maintenance himself. Jeanne grows vegetables in her garden and trades with family and friends. "We just don't choose to do a lot of expensive things," she says. "I think everyone will have to tighten up so people can have a good standard of living in retirement." This probably doesn't resemble the high life many Americans imagined they'd have in retirement, but such frugality may be what it takes to get cash-strapped baby boomers back on track.

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