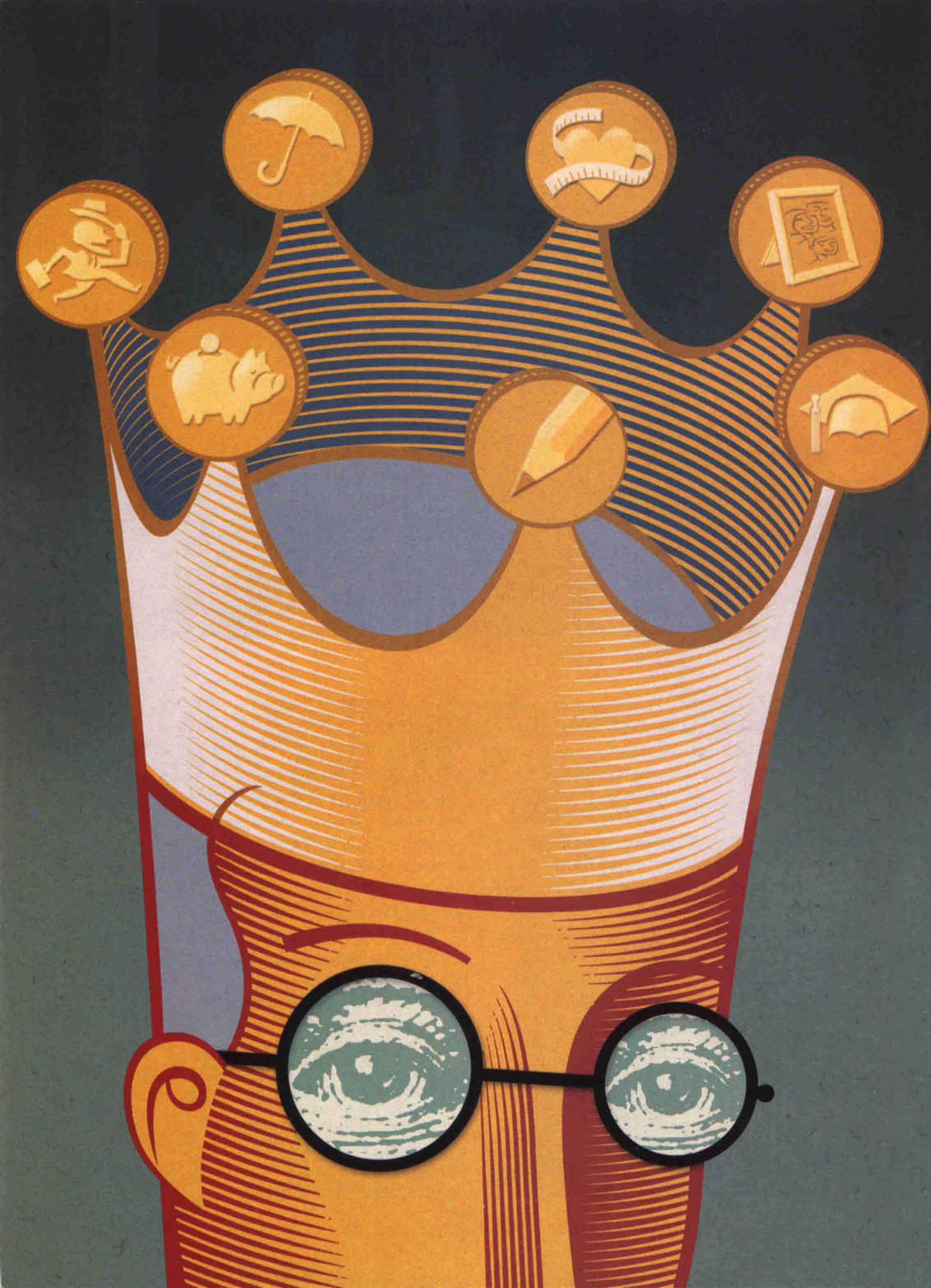

THE SEVEN SECRETS OF SUCCESSFUL RETIREMENT

BY BETSY STREISAND

IN ANOTHER AGE, so long ago that IRAs and 401(k) plans hadn't yet been invented, a powerful, aging king named Lear decided to retire. He elected to divide his vast English kingdom among his three beloved daughters, who would take care of him in his old age. Talk about miscalculations. The daughters turned on their father, then on each other. Lear was driven mad by their ingratitude. Almost everyone else in Shakespeare's well-worn tale also wound up seriously unhappy or dead.

Retirement planning has come a long way in the centuries since then. Today Lear would most certainly have an estate planner and financial adviser, and probably a psychotherapist, retirement coach, and Prozac prescriptions. He would have seen the Oprah episode on how to create meaningful relationships with your children (don't try to buy their affection). And he would have stayed on the throne part time, if for no other reason than to keep from losing his mind on the moors. As for

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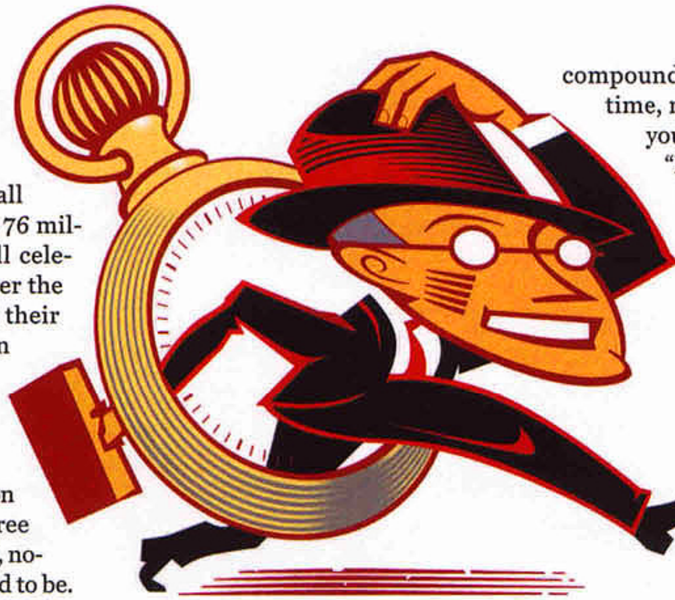


the Bard, he would have plenty of other retirement psychodramas that he could write about.

There's a lesson here for all of us, and especially for the 76 million baby boomers who will celebrate their 65th birthday over the next few decades. Despite their boundless goal orientation and intensity, many of them will have problems, if perhaps a little less epic than Lear's.

For starters, after the Silicon Valley wipeout, 9/11, and three years of a vicious bear market, nobody's kingdom is what it used to be. Although the financial markets have bounced back and Washington has pitched in with a tax refund and other incentives, Americans are hardly saving anything, putting away an average of 2.3 percent of their disposable incomes in 2002 and even less through the first nine months of 2003. Factor in the rising eligibility age for full Social Security benefits (age 67 in 2004), ballooning healthcare costs, and lower returns on investments, and a lengthy and luxurious retirement just doesn't compute for most folks. In a recent national survey, only 39 percent of baby boomers thought they would have enough money to live comfortably once they retire—whenever that may be. And it is dawning on those seniors who can afford to stop working in their early 60s or sooner that they may not need or want a decades-long run of leisure.

"Retirement, as we know it, is dead," says Ken Dychtwald, president of the consulting firm Age Wave. and author of many books on baby boomers and aging. "It's no longer an end. It's a turning point. A chance to take a break and then reinvent yourself." And who better to redefine retirement, he suggests, than the generation that invented reinvention. "Old" is becoming the new new. Retirement is morphing into a rich and enriching third act of work, education, and leisure. It still takes a good deal of money and planning to pull it off. But, as the boomers are about to prove, there is much more to having a life later in life than that. Here are the seven keys to your kingdom.

1 DON'T CALL IT RETIREMENT.

"Rehirement" and "free-tirement" are two of many new buzzwords coined to describe this third stage of life. Both point to the central tenet of revisionist thinking: Retirement will be a cyclical blend of work (at what you want and on your own terms), education, and leisure, rather than a steady diet of Saturdays and a spot on the sidelines. This is as much a financial necessity as a psychological one. Very few people can afford to live well on a fixed income for 15 or 20 years. And a few extra years of earned income, even from a part-time job, can allow your retirement savings to compound over a longer period of time, making a big difference in your overall financial picture.

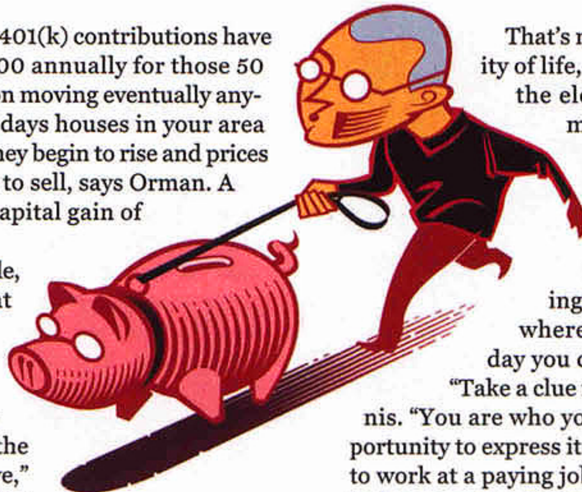
"Drawing down even a little less upfront can have a huge impact on how long your money will last," says Harold Evensky of money managers Evensky, Brown & Katz in Coral Gables, Fla. Work for 10 extra years, for instance, and you will need one third less to retire on. You'll not only be adding to your retirement account—you'll also be reducing the number of years the account will have to last once you retire.

Money matters aside, most baby boomers simply are not interested in heading for a rocker before they have to. They have many years ahead—16 on average for a 65-year-old man, 19 for a woman—and intend to live them fully. Seventy percent of boomers intend to hold a full-time or part-time job while collecting pension income, according to a recent AARP survey. They are throwbacks, says David Ekerdt, a sociologist at the University of Kansas's Gerontology Center—in a good way. "Retirement is a fluke of the 20th century," he says. "For people who are active and healthy, it's destructive. You can only play so much golf."

2 SAVE EARLIER. SAVE SMARTER. SAVE MORE.

Despite the fact that high school students are now being taught to save for retirement, most people who are well into their careers have already blown the "earlier" part of the savings equation. As many as 25 million boomers, or nearly one third, have virtually nothing saved. So, one more time: Putting something away now and regularly, even seemingly trivial amounts, will matter later. "Time is the most important ingredient in any retirement recipe," says personal finance expert and author Suze Orman, who also counsels savers to start clearing away their major debts—including home mortgage—at age 45. "The key to affording retirement isn't just about having more money," she says, observing that people tend to spend *more* after they retire, not less, as conventional wisdom holds. "It's about having fewer fixed expenses." So start saving now. If you intend to retire in 15 years, according to one guideline, you should have more than 3 times your annual income banked already. At five years out, it should be more than 6 times income. You'll find help on Page 64 in determining how much you'll need.

The federal government is trying to make saving (and catching up) easier. The 2003 tax cut, for instance, frees up an extra $2,000 for a $75,000-income couple with two children. Capital gains and corporate dividends also are being taxed less. Limits on 401(k) contributions have been bumped up to $16,000 annually for those 50 and older. And if you plan on moving eventually anyway, watch the number of days houses in your area stay on the market. When they begin to rise and prices start to fall, it may be time to sell, says Orman. A married couple can log a capital gain of up to $500,000, tax free.



On the smarter-saving side, you need to reassess what you have (even if you can't bear to open the envelope) and where it is. "The earlier you sit down and figure out there's a problem, the less of a problem you'll have," says Evensky. Although 401(k) accounts were hit hard by the bear market (story, Page 69), most people still have the bulk of their money (70 percent, on average) in stocks. That remains a good strategy, says Evensky, even though the returns won't be what they once were. He estimates, and many other financial experts agree, that the annual real return on stocks in dividends and capital gains during the next decade will be less than 6 percent annually, compared with an average of 11 percent during the past several decades.

You can't change that, but you *can* be smarter and more diligent about your investments. A typical 401(k) investor can choose from among more than a dozen mutual funds—including "lifestyle funds," with asset allocations targeted to specific retirement dates—yet invests in only three. It also is more important than ever to keep a keen eye on investment costs, such as fees, commissions, and taxes, that can whittle away your gains.

3 GET A LIFE . . . PLAN.

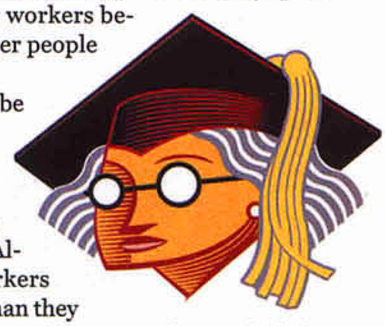
Saving for retirement should not be confused with planning for it. Many of the people who manage to get their finances in order leave the reinvention part of the puzzle to the last minute. "Most people don't grasp that they may have 30 years in front of them when they retire, and they aren't sure what will make this stage of life meaningful," says Helen Dennis, a retirement expert in Redondo Beach, Calif. "Unfortunately, you can't put that on a spreadsheet." Since daily activity is so tied to quality of life, failing to have a game plan can be devastating. Last year, for instance, the average retiree watched 43 hours of television a week, says Dychtwald.

That's not exactly a definition of high quality of life, and depression is rampant among the elderly. Statistics shows that white males in their 80s are the most suicide-prone age group. Dennis's advice to would-be retirees is to think long and hard before they take the step about whatever it is that makes their life meaningful. What kinds of things happen—where do you go, what do you do—on a day you consider really good?

"Take a clue from your past 30 years," says Dennis. "You are who you are, but what you have is an opportunity to express it differently." And whether you plan to work at a paying job or volunteer, lay the groundwork before you retire to assure that you have a stimulating position to move into. Busy is not enough, psychologists say. It's what you're busy doing that counts.

4 BUILD YOUR HUMAN CAPITAL.

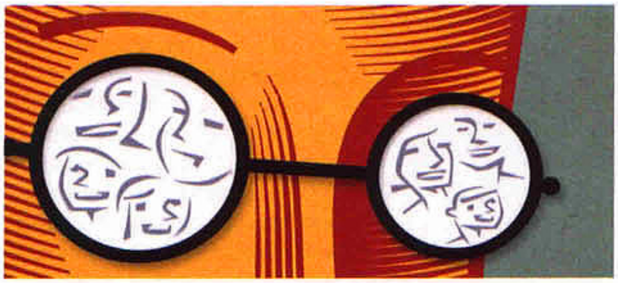
Investing in your education, skills, and other "human capital" by returning to school, volunteering, and making contacts in your field before you retire can be worth more than what you have in the bank. Thirty years from now, as the 65-and-up share of the population balloons, there will be 2.7 younger workers for every person age 65 and older compared with 4.7 now. That may not augur well for the success of the U.S. economy. But it does point to a large pool of available jobs for older workers because of a dearth of younger people to fill them.



Getting those jobs won't be a cinch, especially in light of society's ageist tendencies. It will be vital to be good at what you do and to keep your skills current. Although today's older workers have many more options than they used to, current employers can't be counted upon for help in finding them. "Educating workers on how to get the most out of their retirement is costly to companies and one of the first programs to go when costs are cut," Dennis says. Community colleges and universities can often help. Many older workers are hiring retirement coaches. The International Coach Federation *(www.coachfederation.org)* and CoachInc.com *(www.coachinc.com)* walk you through a questionnaire and then provide a list of coaches.

5 INCREASE YOUR SOCIAL SECURITY.

The relationship kind, that is. "There can be trips to Tibet and cruises to Alaska, but it's the relationships people have with their families and friends that really sustain them in their later years," says sociologist Ekerdt. In surveys, many retirees say they spend more time simply enjoying



their adult children and grandchildren than they do on any other activity. To further those relationships, many retirees are staying put, close to family and friends, instead of migrating to a warm and sunny retirement community. Or if they do move, it is often to follow grown children who have scattered across the country. In a new twist, retirees are even persuading their kids (and grandkids) to move with them to new synthetic-type multigenerational communities. Created by developers in metropolitan areas like Phoenix and Las Vegas, the idea is to mimic the small towns where extended families once lived for generations. These communities often include golf courses and elementary schools, water slides and water aerobics, high school seniors and senior citizens (story, Page 36).

Beyond an amenable location, working and volunteering are good ways to keep up social ties. Although today's elderly have the lowest volunteer rate of any demographic group in the country—and the highest rate of depression—the boomers apparently have every intention of changing that. Opinion surveys consistently find that the next generation of retirees expects that volunteering and community service will be a "very important" part of their lives. "The real heaven on earth," says Dychtwald, "is being with people and staying involved."

STOP GETTING OLDER.

Exercise. Eat better. Lose weight. If one message about aging has gotten out, it's that even a little more fitness and health consciousness can go a long way. Many baby boomers will enter retirement feeling younger and fitter than any of the generations that preceded them ever did. They will look the part, too, as the most Botoxed, liposuctioned, and uplifted group ever (story, Page 55). But that's a generalization. This is also an increasingly obese and sedentary nation. Killer medical conditions such as diabetes and heart disease—abetted by too many calories, too much fat, and too little exercise—are on the rise. Those who want to enjoy retirement will have to take control of their health, and they know that.

But the fountain of youth isn't only reachable by sweating and eating right. Studies suggest that simply spending more time around younger people can work like a B-12 shot to renew your energy, stimulate your mind, and keep you feeling young. That's one reason college towns are on hot lists of retirement destinations. Not only do they offer cultural activities and learning opportunities, but colleges also create one of the most natural and fluid mixes of young and old in society. Health clubs can accomplish a similar double play, exposing people of all generations to one another while they get into shape. Mix it up.

PREPARE FOR THE WORST.

Many retirees wouldn't mind living out their years like former President Jimmy Carter, a model humanitarian. Or like former President Bill Clinton, making millions while deciding on a next career. Sadly, the fact is that like former President Ronald Reagan, millions of retirees will be overtaken by illness and in need of constant medical care. Medicare doesn't cover the cost of long-term care, and the AARP puts the average monthly cost of a nursing home stay at nearly $4,700. At that rate, it doesn't take long for savings to evaporate.

Long-term care insurance policies can cover the expense of nursing homes, assisted-living facilities, and in-home care. In most cases, such policies also cover paid assistance with "life tasks" such as eating, dressing, and bathing, or for care related to Alzheimer's disease. But this coverage is expensive: Depending on your age, medical history, and options chosen (how long care lasts, for instance), yearly premiums can range from $1,000 to as much as $8,000.

The expense can be reduced or managed to an extent. Most experts advise putting off getting a long-term care policy until at least age 50—and checking existing insurance coverage first. Some disability policies, for instance, convert to long-term policies at a certain age. Usually it is best to make the conversion at around age 55, since future premiums usually depend on the policyholder's age at the time of conversion. Long-term care insurance is still an evolving product. But as more boomers near retirement, it is expected to become as ubiquitous as senior-citizen discounts—and far more important than getting 10 or 20 percent off the price of a hotel room.