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Going the distance

Ten tips for people retiring in 10 years

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BOSTON (CBS.MW) -- People expecting to retire in 10 years are frequently behind the eight ball.

Few, say surveys and pundits, have saved enough money to kick back in 2015 and enjoy a life of leisure. But you don't have to be a procrastinator, sprinting to retirement and hoping against hope to have enough money for cruises and grandchildren.

To be sure, it won't be easy. Indeed, only half of households with income between $50,000 to $99,000 have adequate retirement savings, according to one survey. But it won't be impossible. Consider, for instance, that Americans went from sending a chimpanzee into sub-orbital space to putting a man on the moon in less than a decade. Surely, if we can do that, you should be able to retire in 10 years. Here's what experts say you have to do to reach your goal.

1. Plan, plan, and plan: If you haven't done so already, it's time to start planning. "Ideally, it is best for people to start planning much earlier than 10 years prior to retirement," says Joe Hearn, author of "If Something Happens to Me."

First, create a detailed plan. "As I have worked with people over the years it has become clear that many people spend more time planning a vacation than they do planning for 20 years of unemployment," Hearn says. "Don't get me wrong, people save, but they don't always do it with great deliberation. If you ask the average person how much money they will need to fund their retirement or what they plan on doing during their retirement, they come back with pretty vague responses."

The good news is that the 10 years before retirement can be a golden time as well. People are in their peak earning years and many earlier life expenses, namely children and house payments, are either not an issue or significantly reduced. Moreover, people are in a "now-or-never" mindset to tackle the last big hurdle - saving enough for retirement.

Cynthia Egan, director of the Retirement Services business unit of Fidelity Personal Investments, agrees that having a plan in place is critical in the home stretch to retirement. "A good plan will give a realistic assessment of what you need, where you are, and what you should be doing to maximize those last 10 years of employment and saving," she says. "A good plan will make sure you are taking full advantage of any corporate benefits, tax-advantaged vehicles like 401(k)s, IRAs and 529s and that you are realistic about retirement dates and how long your money needs to last."

2, Crunch the numbers: If you haven't done so, sit down and crunch the numbers using realistic assumptions to see if your retirement goal is reasonable, says Rande Spiegelman of Charles Schwab. "It's better to know now whether your goal is reasonable or not." Spiegelman says his reality check involves the following three steps:

Expenses: How much will you spend in retirement? To be safe, figure you'll need as much in retirement as you did before retirement; some expenses may go away, others may take their place. Remember to factor in inflation.

Nest Egg: How big of a portfolio do you need to support your spending goal? To have a high probability that you'll sustain your lifestyle, adjusted for inflation over a 30-year time horizon, you should target a portfolio roughly equal to 25 times your first-year withdrawal amount.

Savings: How much do you need to save to achieve your objective? Take into account what you've already saved, what you expect to earn on your investments, and calculate what you need to save between now and your target retirement date.

3. Expect the unexpected: It's easy, in some ways, to project future streams of income from pensions, annuities, Social Security, investment income, and retirement plan income. It's even easy to determine what your expenses might be. The hard part is planning for those unexpected expenses.

"Don't forget to leave some room for the unexpected -- increased medical expenses, death of a spouse, changes in the tax system or a few bad years of investment returns," says Susan Ransden, a senior manager at Deloitte Tax. "Running the numbers several years before you plan to retire gives you some time to make any necessary adjustments to your retirement savings, your investment strategies, and spending habits so that you when you enter retirement, it's with your eyes wide open."

Catherine Gordon of Vanguard Investments adds that planning early for both the expected and unexpected has benefits: "Like many other things in life, if 'events' are planned well to include both the expected and unexpected, they tend to be better executed," she says.

4. Save more: No matter how much you've set aside, or how much it may grow to, or how much your employer or Social Security will provide, save more, says Steve Leimberg, author of "Tools and Techniques of Financial Planning."

"Use these last few years to save and invest every additional nickel you can," he adds, "because two things are virtually certain: Your money will not earn what it was projected to earn after taxes just a few years ago, and food, clothing, shelter, and lifestyle will cost more than you expected or projected." Indeed, a cup of coffee that now costs $1.50 will cost $3.64 if inflation remains at 3 percent per year. But if inflation doubles to 6 percent, that cup of coffee will cost $8.62.

Martin Nissenbaum, co-author of Ernst & Young's Retirement Planning Guide, says saving more at this stage of life shouldn't be a huge problem. "Hopefully, with the kids out of the home and these being the highest income producing years" you should be able to sock away as much as possible for retirement, especially in qualified plans and IRAs.

5. Use tax-deferred savings vehicles There's nothing quite like tax-deferred savings accounts, says Ed Slott, author of the "Retirement Savings Time Bomb and How to Defuse It." His advice: Put away as much as possible in your 401(k) and Roth IRA, if you can do both. "Your last 10 years are probably your biggest earning years," he says. "Now is the time to put the pedal to the metal and accelerate your savings in tax-favored plans to the greatest extent possible. The amount you save in these last few working years will have a significant impact on how you will live for the rest of your life."

6. Diversify your portfolio. Those nearing retirement are more likely to invest in just one or two asset classes. For example, 30 percent of workers age 60 or older have most of their money invested in employer stock. "Whether it's due to company loyalty, lack of investment knowledge, or a desire to play 'catch up,' older employees subject their retirement portfolios to considerable risk at a time when retirement is just around the corner," says Hewitt Associates. "They should take advantage of the online education, tools and third-party advice that many employers now offer, which can help them choose an investment mix that is well diversified and matches their investment risk tolerance."

Robert Keebler, an accountant in Virchow, Krause & Company in Green Bay, Wisc., says sticking to an asset allocation plan, and rebalancing when appropriate, is an important part of saving and investing. Most people don't create a mix of stocks, bonds, and cash that's right for them based on years to retirement, life goals or risk tolerance. If you don't do this, your portfolio could have too much risk - or too little.

7. Get smart. One-third of current retirees say they wish they'd educated themselves about different retirement savings options, according to Allstate's "Retirement Reality Check." What's more, one in five seniors who admit to being unprepared for retirement say their biggest concern was that they didn't understand investing.

"While there might be a plethora of financial information," says Rebecca Hirsch, an Allstate spokesperson, "there are still a lot of people out there who don't feel they understand the right savings vehicles that will get them to a fulfilling retirement."

Her advice: While someone 10 years from retirement doesn't have as much time as a younger person, it's still important to research and learn about investments. Find out which savings vehicles will help you save more money for retirement over a shorter time frame, or protect the money you've already saved from market fluctuations. "It's not too late," Hirsch says. "Ten years is better than 10 months from retirement."

8. Get advice. Everyone has his or her own unique goals, risk tolerance, and existing savings, says Scott Budde, a TIAA-CREF managing director of investment management. Even among a particular age group these factors can vary greatly. "So we find that 'one-size-fits-all' blanket advice often does not meet the needs of a particular person," he says. His suggestion: Seek personalized advice tailored to your specific situation.

Another advantage of getting advice: Professional advisors should be able to steer people away from investment mistakes that are difficult to recover from the closer you are to retirement, especially lack of diversification. "Think of all the people that had most of their retirement nest eggs in Enron or WorldCom stock," says Hearn, the book author.

9. Get real (returns). Time was when you would use simple average stock- and bond-market returns to calculate your investment goals. Stocks have risen on average 12.5 percent since July 1932 and bonds have gained on average 5.5 percent, says Ibbotson Associates. But in reality, stocks behave much differently, rising 54 percent in their best year and falling 35 percent in their worst year.

That's why most experts, including Susan Hirshman, managing director JPMorgan Fleming Asset Management in New York, recommend using a "Monte Carlo simulation" to predict whether you will build a sufficient nest egg.

The Monte Carlo simulation runs your portfolio through thousands of different economic and market scenarios, giving a range of outcomes that offers a more realistic view of whether or not you're on track. "You need to be brutally truthful with yourself," Hirshman says. "You really need to examine what you have and what you need. Do all the numbers work?"

Hirshman adds that the Monte Carlo simulation draws a picture of "what you need to do to get where you want to in the next 10 years." You'll also find out whether you'll need to curtail your current lifestyle, work longer than anticipated, save more, or invest more aggressively.

Of note, some experts suggest you need a 70 percent probability of reaching your goals with the Monte Carlo simulation, others say 80 percent.

10. Get a life (in retirement) Odds are that if you retire at age 65, you'll enjoy two decades -- if not more -- of retirement. That's why dozens of experts suggest spending the 10 years prior to retirement thinking long and hard about what you'll do with all that free time after you retire. "Make sure that you have plans for how you will spend your time when you are no longer working," says Bernard Kent, co-author of the "PriceWaterhouseCoopers Guide to the 2005 Tax Rules."

Several books that can help you think about how you will spend your time in retirement include: "Live Long & Prosper" by Steve Vernon; "Looking Forward" by Ellen Freudenheim, and "Prime Time" by Marc Freedman.

Enjoy the next decade.

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