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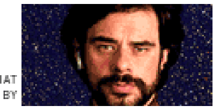

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To Retire in This Weak Market, the Magic Word Is ‘Focus’

By TARA SIEGEL BERNARD

MICHAEL SURRETT’S investment portfolio hasn’t fully recovered from the market crash, but that didn’t stop him from retiring three weeks ago.

“We are no different than anyone else in this economy,” said Mr. Surrett, 64, who lives in Valley Springs, Calif., with his wife, Shirley. “We have felt this greatly with the decline in stocks, bonds and mutuals. The key is planning and having our priorities set.”

For Mr. Surrett, who spent most of his career in institutional food services and procurement, his priority was swapping the stress of working for a quieter existence that allows him to spend less time in traffic and more with his family. He understands that he must rein in his spending to stretch his retirement savings, which he said are about 20 percent lower than he would like.

Diminished investment portfolios and declining home values have forced many people to delay their retirement plans. For many older Americans, reducing spending isn’t and won’t be a sufficient option — and they face the unfortunate reality of working longer.

But a number of people, like Mr. Surrett, are all too ready to move on to the next phase of their lives — even if it requires mastering the fine art of cutting back, as one financial adviser put it. This group has the financial resources and the motivation to manage the exchange of living standards for freedom, at least in theory.

But is the idea delusional? That’s where the hard work comes in: evaluating whether you can make the transition in this economy will require soul-searching, tough choices and a return to the thrift-minded ways of past generations. “It’s interesting to see how people can and do adjust to difficult situations,” said Robin Young, a financial planner with Northstar Financial Planning in Londonderry, N.H. “People are very resilient and get empowered by their own resourcefulness.”

Where does an aspiring retiree begin? We asked several financial planners, including a group of professionals known as life planners, who said they took a more holistic approach, prioritizing life goals and spending, and grounding those in sound financial planning.

ENVISION Before making the transition, people should envision their lives in retirement. Life planners take a thought-provoking approach, which involves asking three questions that try to elicit, with increasingly pointed precision, what’s truly important to a person. Ideally, these are answered well before retirement.

The first question assumes you have all of the money you need — how would you live your life today? In the second, you are told that you have five years to live: what would you do with that time? And the final question aims right at the heart. You have 24 hours left on earth — what did you miss? Whom did you not get to be?

Answering these questions puts people in a more expansive state of mind and opens them to thinking more creatively, life planners said. “It essentially describes their picture of freedom,” said Reed Fraasa, a registered life planner, a designation granted by the Kinder Institute after completion of its life-planning curriculum. And what many people learn is that they’ve become shackled by a lifestyle they created during their peak earning years, at the expense of pursuing more fulfilling, and often less expensive, goals.

The answers to the questions rarely center on money or things, say these planners, most of whom have completed the exercise themselves.

“For clients approaching retirement, this process can often help them make the leap because they have something to look forward to and are willing to think creatively about how to get it,” said Ms. Young, also a registered life planner. “It really takes digging into the expenses and helping the client to come up with ideas that work for them; they will only do this if they have explored why retirement is important to them and can understand what the trade-offs are.”

FOR Susan Kuhn, 60, a retired community executive at the American Cancer Society, one trade-off meant giving up a second car. Her husband, Bill, about 13 years her senior, retired about eight years ago. Given their age difference and their goal of doing things together — and Mr. Kuhn’s desire to have their savings support his wife after he’s gone — they knew they would have to make some adjustments. When the market fell and Mrs. Kuhn wrecked her car, the couple decided they could manage with just one.

“It seemed like a sacrifice at first, but it has worked out just fine,” she said, because Mr. Kuhn does a lot of volunteer work from home, including refurbishing computers for the needy and elderly. “We just work more closely on our schedules, and it saved us a lot of money.”

For the Kuhns, it was a matter of fine-tuning. They traded in their older, large refrigerator for a smaller one, which halved their electric bill. The thermostat is set at 65 degrees throughout the cold winters in Atkinson, N.H., where they live, and sweaters and a wood-burning stove help keep their heating costs down. Mr. Kuhn said they were living on 65 percent to 70 percent of their preretirement income today.

TRACK SPENDING A large part of the Kuhns’ flexibility can be traced to Mr. Kuhn’s meticulous record-keeping, using Quicken software. “I am a record freak,” Mr. Kuhn said. “It’s a pain, but when you get ready to retire you really need to know what it will cost you.”

Most people take a backward approach, advisers said, and aim for a dollar amount — whether it’s $500,000 or $5 million — that they believe they must hit before they can retire. Instead, you should track your expenses for several months, or, even better, for a year.

Mr. Fraasa, of Riverdale, N.J, asks his clients how much time they spent researching their last vacation and then asks them to spend at least half that time going through credit-card and bank statements. Automating the process by using expense-tracking software or Web sites can alleviate some of the tedium. Once you know what you’re spending, you can more easily compute how much it costs you to live and how much wiggle room, if any, you have.

“Sit down and get conscious,” said Rick Kahler, a financial planner in Rapid City, S.D.

Aspiring retirees need to estimate which expenses will stay (food, utilities), which will go (mortgage, perhaps, or a monthly commuter train pass) and where they may increase spending, like travel. Medicare Part B generally costs about $97 a month, but doesn’t include prescription drug, dental, hearing or vision coverage. If you expect to buy a supplemental policy, start pricing them. And familiarize yourself with medical costs you may have to pay for out of pocket, so there are fewer surprises.

Henry Hebeler, a retired Boeing executive who created AnalyzeNow.com, a Web site that offers retirement advice and calculators, also recommended making what he called a replacement budget: make a list of all the big-ticket items you expect to wear out — cars, water heaters, the roof — by estimating their life and replacement cost.

CUTTING BACK Once would-be retirees know what they want retirement to look like, they can evaluate whether their resources can accommodate those goals.

“Many would rather live on less and have freedom than go to work each day and have a fatter wallet,” said Scott Hanson, a financial adviser in Sacramento.

Leonard Golub, a financial adviser with a life-planning approach, has witnessed a renewed sense of community among his clients, whose solutions often involved sharing resources. “I see people coming together to pool financial resources in communities, sharing land or sharing dwellings, sharing vacation homes,” he said. “I see them making decisions to downsize their home and deciding the home they built is not the home they need.”

A smaller house may be an obvious option, but it’s one that many retirees agonize over, especially those with emotional attachments to their home or who want space for visiting children and grandchildren.

“Despite a troubled real estate market, a large percentage of our clients, as they often say about farmers, are real estate rich and cash poor,” said Charles Farrell, president of 65Retire, a financial services firm in Irvine, Calif. “By selling a vacation property or even downsizing a primary residence, we can often free up enough cash that can be invested to produce more lifetime income."

Depending on where you live, it may pay to wait. But even if you receive, say, 15 percent less than you’d like for your current home, the less expensive home you shop for is also likely to be cheaper.

For some people, it may simply be a matter of cutting out the excess — eating out less, sticking closer to home, taking the time to call your service providers to find savings. The same logic can and should be applied to your investment portfolio. Get rid of expensive investments and replace them with low-cost index funds or exchange-traded funds, which can easily cut your investment fees by 1 percent. On a $500,000 portfolio, that could save $5,000 a year, said Kevin Brosious, a financial planner in Allentown, Pa. “Not chump change.”

DIVIDE YOUR MONEY Retired people and those on the cusp of retirement need to position their savings so they don’t have to worry about having to sell investments at precisely the wrong time so that they can cover living expenses. Most retirees need to plan for a 30-year retirement, but they think of every market downturn as an “end state,” Mr. Fraasa said.

Separating money into “buckets” that are designated for different tasks can help alleviate the problem; many planners use this strategy, with slight variations.

Mr. Fraasa, for instance, has his clients keep an emergency fund and a reserve fund, with the remainder invested for the long term. The emergency fund contains three to six months of living expenses in liquid investments to cover unexpected short-term expenses or catastrophes.

The reserve fund, meanwhile, established as you approach retirement, would include three years of basic expenses (so if you have a $500,000 portfolio and you expect to withdraw $20,000 a year, you could put $60,000 in short-term bonds and money-market funds). The remainder is invested in stocks and bonds for the long term, with an allocation based on your risk tolerance and goals.

“Eighty percent of how someone will react to a crisis, with financial planning, has already been dealt with before the crisis, because they have already gone through this process," Mr. Fraasa said.