Early Retirement

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The hurry-up offense Anne and Joe Raspanti fell in love late in life. Now they want to stop working as early as possible. By Amanda Gengler, Money Magazine staff reporter

December 21 2006: 11:51 AM EST (Money Magazine) -- Ten years ago, Anne and Joe Raspanti said "I do" in Hawaii. Among the things those two words changed for Joe were his plans for how, and where, he'd spend the rest of his working life.

As a deputy security director at a naval weapons station, he had assumed that until he retired at age 62, he would remain in Hawaii, where he'd lived for the past 16 years.

But after Anne's children began having kids, she wanted to return to the mainland to be closer to her family. So in 2002, the Raspantis headed to South Carolina, taking a $25,000 pay cut to do so. Though their combined income is now down to $122,000, Joe, 50, hopes to retire at the same time as Anne, 56, a registered nurse, who plans to call it quits in just six years. "I'd like to be able to spend the time with Anne," says Joe, "but I don't know if it is realistic." Where they are now Starting at age 56, Joe is eligible for a monthly government pension of $2,000, with a $1,000 supplement until age 62.

After retirement, he hopes to bring in another $15,000 a year by working part time. Both Raspantis started saving late, but before they left Hawaii, they had begun funneling $25,000 a year into their retirement accounts.

"We were doing great before the move," says Joe. Recently their yearly retirement contributions have dropped to just $10,500. Still, Joe has $122,000 in his Thrift Savings Plan, the government's version of a 401(k), and Anne's IRA balance tops $90,000.

They each have a $5,500 Roth IRA that is entirely invested in a variable annuity, as well as a third, jointly owned, variable annuity valued at $17,500. Unfortunately, furnishings for their new 3,000-square-foot home and unexpected expenses, such as a new central air-conditioning system, have nearly depleted their emergency cash.

What they should do It isn't out of the question for Joe to retire early, say financial planners Jenny Curran and Bill Prewitt of Charleston, S.C. But in order for him to do so, the Raspantis will have to give their finances a serious overhaul. Rebuild the emergency fund The couple have just $5,000 to cover unexpected expenses.

They need to bring that up to at least $24,000, says Prewitt, which would cover about three months of living expenses. The cash should be in a money-market account, which earns interest, not their checking account. Open new Roth IRAs Joe and Anne both have their Roth IRAs in variable annuities. Big mistake. Since every Roth already comes with a full set of tax benefits, they gain nothing by investing theirs in the tax-deferred annuity.

They do, however, gain 1.5 percent in unnecessary annuity fees. But the couple will pay 4 percent surrender charges if they remove the money now, so the planners recommend that they put future contributions into new Roth IRAs. They'll also need to hang on to the third annuity for four more years until its surrender charges disappear, at which point they may want to move the money elsewhere.

Lower investing fees Most of Anne's $90,000 IRA is invested in mutual funds that charge up-front costs as high as 5.75 percent, plus 1.5 percent in annual expenses. Curran and Prewitt advise her to switch to no-load index funds at a company such as Fidelity or Vanguard, where the fees are often less than 0.25 percent per fund. They also recommend a 60-40 stock and bond index-fund mix, including Money 65 funds Fidelity Spartan Total Market (FSTMX (Charts) and Vanguard Total International Stock (VGTSX (Charts). She should split her bond allocation between Vanguard Short-Term Bond (VBISX (Charts) and Vanguard Total Bond Market (VBMFX (Charts).

Find the missing money When the planners asked for a budget, the Raspantis found that they could not account for about $2,000 each month. "They need to write down what they are truly spending," says Curran. "Then they'll know where their cash is disappearing." The missing money, say the planners, is the key to whether they can retire in six years.

To hit that goal, they need to save an additional $1,000 a month. After rebuilding the emergency fund, they should use the $1,000 first to max out Joe's TSP, then put the remainder in Roth IRAs. But even that extra savings would give them just enough to live on after retirement, notes Prewitt, so Joe might want to consider extending his stay in the work force by another couple of years. Nevertheless, Joe and Anne are excited by the news that early retirement may be possible. "We're going to go after it," says Joe.