FORTUNE

You can still retire rich...really

Yes, you may have to work longer, and you definitely have to save more. But today's lower stock prices will lead to bigger gains in the long run.

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Full-time CFO and part-time basketball ref Van Debrick of Clinton, Md. made a lucky call. He pulled out of stocks early last year: "Right now I'm staying put."

NEW YORK (Fortune) -- Leave it to one of the country's leading gerontologists to capture the gallows humor of planning for retirement in the post-2008 world. "The collapse of the economy has led me to drastically restructure my own retirement plan," says Dr. Richard Besdine, the 69-year-old director of the Brown University Center for Gerontology and Health Care Research. "It's a lot simpler now -- I'm just going to die in the office."

Admit it, whether you're 55 or 35, such a thought has at least crossed your mind, if only in jest. With home equity evaporating and many 401(k)s and IRAs down 30%, 40%, or more, folks who thought they were in the homestretch of their working lives are being forced to put retirement plans on hold. Younger investors with dreams of early retirement are resigning themselves to much longer stays in the workforce. And those who weren't fully recovered from the 2000-02 tech wreck when 2008 happened are starting to wonder whether they'll ever have enough to retire.

But the outlook is not entirely bleak. If you're young -- say 40 or even 45 -- the recession and stock market collapse may actually work in your favor: Not only is it now easier to save (conspicuous consumption is so 2007), but you'll also be buying into the market at a relative low point. Even after the recent rebound, Standard & Poor's 500 is still trading below where it was in June 1997. And with 20 years or more before the traditional retirement age of 65, you have plenty of time to recoup losses and build wealth. That is even more true for younger investors. In fact, it's hard to overstate the advantage of getting an early start on your retirement savings. Thanks to the power of compounding, someone who invests $400 a month from age 25 through 34, and then doesn't save another penny, will end up with more money than someone who invests the same amount monthly from age 35 through 65 (see chart to the right).

If you're 50 or 55, of course, you don't have time on your side. The tax code does work in your favor: So-called catch-up provisions allow you to make extra pretax contributions to your retirement accounts. If you've owned your home a long time, you probably still have plenty of equity. And that retirement spot you've got your eye on may now be much more affordable. But there's no getting around the fact that many older workers will not be able to retire as soon, or as lavishly, as they once hoped. Indeed, Americans of all ages are in for a period of adjustment. During the magic bull market of 1982 to 2000, stocks returned an amazing annualized average of 18% a year. That's enough to turn an initial $100,000 into $2 million -- with no additional savings. And that was part of the problem. Stock market returns were so rich for so long that many of us got used to the idea of the stock market (and later the real estate market) doing our saving for us. The national savings rate dropped from 11% in 1984 to near zero in early 2008. Clearly that needs to change, and it already has: The savings rate has since climbed above 4%.

That's a good thing; few will miss the era of competitive spending and relentless house-hopping. And we suspect that there's a large contingent of Fortune readers who aren't completely crestfallen at the prospect of spending a few more years in the workforce. So the next phase in our economic life may not be about deprivation so much as a return to more realistic values.

Still, you're going to need some money. And when it comes to repairing the damage to your retirement plans, we can help. In this story we'll look at steps you can take to get back on track. Immediately following is a new edition of the Fortune 40, our market-beating collection of sturdy stocks, along with our updated mutual fund portfolio. In "Five Smart Stocks from the Fool," a Motley Fool analyst talks about what he's buying now. If you're scouting retirement locations, check out "What Happened in Phoenix" for a look at that city and five other popular spots. We take a critical look at everyone's favorite retirement plan in "Has the 401(k) Failed?" and investigate the impact of our ballooning federal deficit in "We Owe What?" Finally, in "Betting the Farm" we profile some very shrewd investors who are gobbling up farmland.

But first, our prescription for nursing your retirement portfolio back to health.

Get back into the game

In March of last year, Van Debrick timed the market almost perfectly. About 90% of his $365,000 in retirement savings had been invested in U.S. and international stocks, but he wound up shifting almost all of that money into bonds. A 57-year-old CFO of a Virginia- based nonprofit who also moonlights as a college basketball referee, Debrick says he wound up losing only $13,000 last year. "I'm not moving anything right now," he says when asked if he's thinking about buying back into stocks, which now account for only 10% of his savings. "I'm watching. Maybe I'll move if things start moving, but right now I'm staying put."

Problem is, if Debrick is looking to time the market again, he's unlikely to be as successful getting back in as he was getting out. When the perfect reentry point does occur, most folks are too scared to pull the trigger. Did you feel like putting money into the market when the S&P hit a 12-year low in March? And there's no debating the fact that you do have to get back in. Debrick will have a $60,000 annual pension when he retires in two years as planned, which means he can afford to be ultraconservative with his money, even if that means accepting lower returns. Most people don't have that luxury, though. Despite all the volatility, stocks still offer the best shot at the kind of long-term growth you'll need to build a substantial retirement stake.

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For all you nervous Nellies who thought you'd sworn off stocks for good last year, keep in mind that we're not suggesting that you reinvest all your sidelined money in one fell swoop. In fact, we'd urge you not to. Consider dollar-cost averaging, which means that if you have $50,000 to invest, do $5,000 a month for 10 months rather than investing it all in one lump sum. That way you mitigate the risk of buying in at a high point in the market and seeing your stake decimated by a sudden dip.

There's a lot of debate over whether an economic recovery will come this year or next, and how strong it will be when it gets here. But there is a case to be made that this is a good time to be getting back into the market. Charles Schwab chief investment strategist Liz Ann Sonders -- who predicted in 2006 that the housing bust might sink the economy and stock market -- is now turning bullish. Sonders notes that a sharp contraction in inventories such as the one we've experienced in recent months is usually a precursor to economic recovery. "We've seen inventories get down truly to the bare bones," says Sonders. "When you look at the plunges we've seen in past recessions, we're at the level where production at some point is going to have to ramp back up. Retailers are going to have to replenish inventories, and inventory replenishment cycles can be very, very sharp." Indeed, she thinks that the recession may already be over and that the economy could start growing at a 7% to 8% annualized clip "as pent-up demand is unleashed."

What to buy in such a recovery? For her part, Sonders likes Asian emerging markets: "The Asian economies don't have the same kind of banking problems we do." The easiest way to make that bet is via an exchange-traded fund such as SPDR S&P Emerging Asia Pacific or a sector mutual fund such as Matthews Asian Growth & Income. Of course, emerging markets tend to be volatile, which is why they should represent only a small allocation -- certainly no more than 10% -- in any retirement portfolio.

For your bread-and-butter stock investments, there's value right now in high-quality blue chips with low debt and healthy dividends -- the kind of stocks least likely to keep you tossing and turning at night. Ever since the market began to rebound in March, these stocks have lagged well behind their smaller, riskier brethren. "In April, the franchise companies flat-lined, while the really crappy ones went up 20%," says Jeremy Grantham, the veteran value manager whose firm, Grantham Mayo Van Otterloo & Co., oversees $85 billion. Quality blue chips include Microsoft (12 price/earnings ratio, vs. 15 for the S&P 500) and Johnson & Johnson (12 P/E, 3.5% dividend yield).

And once you have your money in stocks, you need to keep it there. "People tend to vastly underestimate how long they'll live," says Kristi Mitchem, who oversees 401(k) and other defined-contribution programs at Barclays. While the average American now lives to 77 (up from 64 in 1940), a man who reaches 65 actually has a 50% chance of living to 83 while a 65-year-old woman has a 50% chance of living to 85. Moreover, for a 65-year-old married couple, there's a 50% chance that at least one spouse will reach 90. The upshot is that even someone on the brink of retirement should keep 30% to 50% of his portfolio in stocks to ensure that he doesn't outlive his money.

Save more

Telling folks they need to save more to recoup money lost in the stock market may evoke some loud duhs from readers. So be it. Our concern is that too many people -- particularly those 45 and older -- are taking a "what goes down must go up" approach to their battered retirement accounts. We don't think it's prudent to count on another raging bull market to bail them out of last year's collapse.

Say you're a 42-year-old earning $100,000 a year with a goal of retiring at age 60 with a $1.5 million nest egg. From 1987 through 2007, the stock market returned about 12.5% a year. Assuming a 12.5% compound interest rate and $200 in monthly contributions to your IRA or 401(k), by 2007 you would have been well on your way to your $1.5 million goal, with $200,000 in retirement savings.

Problem is, if last year's stock market bloodbath whittled your $200,000 down to $120,000, you now need your future investments to return 14.5% a year to reach that $1.5 million goal. Given that the stock market has historically returned just 10% a year, and given that you'll surely want to reduce your exposure to stocks the closer you get to retirement, banking on a 14.5% annual return seems wildly optimistic. Even if you retired at 65 instead of 60, you would still need to increase your monthly retirement savings to $400 a month to build that $1.5 million nest egg. And that's assuming 10% annual returns.

That's the bad news. The good news is that in this economy it has become easier to save. Big-ticket items like housing, autos, and travel are considerably cheaper today than they were a year ago. You may also find it easier to throttle down. "There's less pressure to keep up with the Joneses," says J. David Lewis, a financial planner with a fairly upscale client base in Knoxville. "They're driving cars longer. They're finally dropping their memberships to the country club they belonged to for 10 years but hardly ever went to."

Eva Hom is a case in point. A 39-year-old sales representative for a San Francisco real estate title company, Hom doesn't know exactly how much she lost in her 401(k) last year, only that it was a lot. "The statements are just too depressing to look at," says Hom, who once harbored dreams of retiring at 50. In response to the recession, she and husband Alvin, 40, have made significant lifestyle changes. She's cut back on her beloved manicures and pedicures ("Before, if I got a little chip, I'd have to run to a nail salon"), they now groom their two Malteses themselves rather than take them to the doggie salon, and they're no longer regulars on the San Francisco restaurant scene. "I've become a Rachael Ray," says Hom. "Every night I've got a theme and a menu." Then there's vacation. Last summer Eva and Alvin spent $10,000 taking their daughter Cameron, now 8, on a Disney cruise. This summer? "Nothing extravagant," she says. "Like everyone, we'll probably stay home."

Another way to save some money is by refinancing debt. Assuming you qualify for a conforming mortgage, rates are near historic lows -- about 5% on a 30-year fixed loan. If you've got equity built up in your home -- yes, we realize that's a big "if" in some hardhit real estate markets like

Arizona and Florida -- refinancing your primary mortgage might allow you to pay down high-interest-rate credit debt as well as any other real estate loans you may have.

Consider the case of Dave, 42, and Suzanne Jeska, 39, of Flanders, N.J. Five years ago they bought a beach house as an investment. Not great timing, in hindsight. But with the assistance of Stephanie Sherman of Prudential, they've made some maneuvers that have helped remove some of the sting. Taking advantage of their 50% equity in their primary residence, the Jeskas refinanced both mortgages in a way that shifted $150,000 in debt from the beach house to their primary house, reducing the average interest rate and payoff time on their mortgages, and giving them some tax benefits as well. "Our focus as a family lately has been reducing our spending," says Suzanne Jeska, who runs her own firm, MRN Web Designs. "Trying to get a bigger tax write-off is part of that."

Resetting the clock

"Ten years ago, my timeline was to retire at 62," says Arcelia Johnson-Fannin, 61, dean of San Antonio's Feik School of Pharmacy. "Then a year ago, when things changed economically, I didn't know when I could retire."

Johnson-Fannin's investment portfolios are down more than 30%, she says. Add in a mother in a nursing home, a son in college she and her husband are still supporting, and $15,000 in credit card debt rung up on a vacation in Turkey ("I still can't believe I did it"), and Johnson-Fannin now thinks she'll be working well into her late sixties.

Yet when Johnson-Fannin says this, her voice is not tinged with regret or sadness. Quite the opposite. "I want to be ready financially to retire at 66, but I do not see me walking away from what I'm doing in five or six years," Johnson-Fannin says. "I like being in charge. I guess I would say that most people are like me. If they like what they're doing, if they're getting endorphins released, and if they're still in good heath, they're not going to retire. If I'm getting all these wonderful feelings from what I'm doing now, then golf and sudoku and television and crafts are just not going to replace it for me."

While Johnson-Fannin may not be typical, we suspect that her comments resonate with a lot of Fortune readers -- folks who were never all that wild about the idea of giving up their careers cold turkey. The state of the economy is certainly behind some decisions to postpone retirement: A recent study published by the consulting firm Age Wave found that American preretirees intend to postpone their retirement date by an average of 4.2 years on account of the 2008 stock market collapse. "I need money to sustain the lifestyle we have," says Paul Moe, a 66-year-old attorney in Edina, Minn., whose law practice supplements his Air Force pension.

But even before 2008, the long-term trend toward earlier and earlier retirements had started to reverse, especially for "higher-income workers who put so much of themselves into their jobs," says Andrew Biggs, former principal deputy director at the Social Security Administration and now a resident scholar at the American Enterprise Institute. For these folks the prospect of working a couple of years extra, or accepting a consulting gig or two between trips to Hilton Head, may feel less like a burden than a relief.

Biggs says that there's a desire for a more "phased in" exit from the workforce. A 2007 Merrill Lynch retirement survey pegged the expected retirement age at between 62 and 63 -- an increase of two years from 2006 -- and 65% of respondents said they expected to continue working in some capacity post-retirement. "We're seeing more affluent workers cycling in and out of work but not retiring completely," says Aimee DeCamillo, who heads up the personal retirement division at what is now Bank of America Merrill Lynch.

Part of the explanation involves the length of retirement. Thanks to improved longevity, the average American retirement now lasts 19 years, up from eight years in 1950, according to Age Wave founder Ken Dychtwald. "First of all, that's a really long time to live off what you previously accumulated," says Dychtwald. "Second, it's extremely boring. We have built a fantasy in our minds that 20 years of free time is a dream come true. It's not."

Dychtwald continues: "Every study that's been done on this subject shows that more than half the retired population feels disoriented and depressed. They don't feel as productive and connected as they once felt. According to A.C. Nielsen, they're watching an average of 46 hours of television a week. The people who seem the happiest and the most comfortable with their maturity are those who by and large are still working." They may not be working five days a week or even six months a year. But Dychtwald believes that the social interaction and physical activity that come from having some inclusion in the workforce lead to happier retirees and better health. Indeed, Besdine, the Brown gerontologist, says that there is medical evidence that working in retirement is good for your health and that early retirement can be harmful -- particularly if retirement means a more sedentary and less intellectually stimulating lifestyle.

The bottom line is that extending your work life has its benefits, even if the decision to do so has been made out of necessity. Moreover, most folks are at or near their peak earning power in their sixties, and they don't have nearly as many expenses -- kids are out of college, mortgage is paid off, etc. -- as they did when they were in their forties. As a result, it's usually easier to rebuild savings in your sixties than in your forties. IRS rules help too: Once you turn 50, the IRS allows additional catch-up contributions of up to $5,000 pretax to IRAs, 401(k)s, and other tax-advantaged retirement accounts annually. Finally, each additional year you work is one more year when you won't be tapping your retirement savings. "The longer you can delay drawing on your nest egg, the bigger your annual draws can be when you do retire," says Lynne Ford, who oversees the retirement products division at Wells Fargo. In other words, a late retirement may well be a richer one.