Question: What financial actions should people take who are within a decade or so of retiring considering the current state of the global economy? Should they worry that their investments might lose 30% of their value as some are predicting?

Answer: Some actions for people within a decade or so of retiring depend on what will happen to the economy; some don't.

I would say that the three most important things that are independent of what happens to the economy are: (1) Maintain good health practices. You've got to minimize future health expenses and maximize the activities that you'll want to do over the last quarter or third of your life. (2) Save big-time! This is the time that your savings potential is the greatest. Kids have left home and income is the highest of your lifetime. (3) Plan on working longer to maximize benefits from additional savings, pension plans and drawing Social Security at higher amounts.

The things that will happen to the economy have the greatest effect on what your savings and pension are worth as well as what will happen to your taxes the and the prices of things you consume and medical care. I personally think that the boomer generation is going to face the most difficult economic conditions since the Great Depression. We have been on a consumption binge since the late eighties at the expense of savings. Government has behaved the same way and generated on-going bills that can only be satisfied with higher taxes and reduced entitlements. In order to make the debt relatively smaller, the government is going to have to increase inflation which also means it can pay it off its debt with cheaper dollars.

The biggest effect the economy has on retirees will be inflation for three reasons: (1) It reduces the relative value of the savings they then hold and saving's subsequent buying power. (2) It reduces the real value of their fixed income. I lost 30% of the value of my fixed pension within the first ten years of my own retirement. (3) It increases the cost of almost everything they need, especially their ever-growing need for medical services and medications.

I've written about my own personal investment approach to economic problems on www.analyzenow.com. I converted my 401(k) to two Roths feeling that taking the tax hit now was well worth what may happen to tax rates in the future. Within the Roths I have prepared for both extremes of depression and high inflation. I hold laddered TIPS, some CDs and REITs in the Roths. Outside of the Roths, I have bought the most Savings I Bonds I could for many years. (I saw the handwriting years ago when I looked into what was happening to the national savings rate. From 1985 to 2005, savings, as a percent of after-tax income, went from its historical level of 9% down to zero at a time it should have been increasing to perhaps 15% because employers were dropping defined benefit plans.) I still own several low cost stock index funds as a percentage of my investments. I keep my stock funds and equity in investment real estate a little above 100 minus my age because, in the VERY long run, the prices of stocks and real estate will increase with inflation as well—but they won't help in a depression. However, selling during a depression is selling at the wrong time.

A number of years ago I saw that really serious trouble was brewing, so I bought laddered inflation-adjusted immediate annuities for part of my fixed income investments. At that time interest rates were more favorable than they are now, so in retrospect, this turned out to be a very good investment even though I took a hit for buying inflation-adjustments instead of a straight fixed payment annuity.

I also put as much money as I could into Savings I Bonds both for us and for gifts to our children and grandchildren. Some of those are paying 3% plus inflation. That's amazing for a government secured bond. Even though Savings I Bonds now are paying interest only at the rate of inflation, I don't know of any other bonds that have the same security and offer that degree of protection for both depression and high inflation.