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Couple's cozy retirement hinges on reining in costs

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Karin Price Mueller/The Star-Ledger

Morris, 63, and Sheila, 54, are bracing themselves for a big expense. Their youngest of two children, a senior in high school, starts college in a year. College, though, isn't their only concern.

''We want to have some retirement monies put aside,'' says Sheila. ''We want to live within our means and allow for more cash flow.''

The couple, whose names have been changed, set aside $13,500 in 401(k) plans, $10,000 in IRAs, $3,500 in an annuity, $8,000 in a money market account, $100 in savings and $11,500 in checking. Sheila expects a monthly pension of $2,800 when she retires.

The Star-Ledger asked Andrew Novick, a certified financial planner with Condor Capital Management in Martinsville, to help the couple work through their financial questions.

''To have essentially zero net worth considering their ages and income is distressing,'' says Novick. ''If they hope to have a decent retirement lifestyle, they need to make significant changes and they need to make them fast.''

The positive, he says, is Morris and Sheila both have jobs and a nice income.

Novick first considered their mortgage, which he says is much too large considering their financial situation. They have an interest rate of 6.75 percent with nearly 30 years remaining — a good two percentage points higher than current rates.

''I do not believe they will be able to refinance today because they have so little equity in the home and need a jumbo loan,'' Novick says. ''Most lenders require an 80 percent loan-to-value in order to refinance a jumbo loan at favorable rates.''

The couple should look into refinancing anyway. Selling the home now is not ideal either because home prices are so depressed, Novick says. This means they're probably stuck in the current housing situation for at least another year,

he says.

‘‘If home prices firm up and they can accumulate some savings to pay down the loan, they may be in a better position to consider refinancing next year,’’ Novick says.

Morris and Sheila may have to consider a sale and downsize instead.

‘‘It will free-up enough cash flow to start accumulating savings for retirement,’’ he says. ‘‘Note that modest downsizing is probably not going be enough. I feel that they need to downsize in a major way.’’

It is easy to see why this is the case. The mortgage and real estate taxes alone are $4,300 per month. In retirement, Novick says the couple’s combined Social Security benefits will cover the mortgage and real estate taxes, but not much more. Assuming they do not build up a portfolio to provide additional retirement income, Sheila’s $2,800 per month pension would have to satisfy all their other living expenses.

‘‘Excluding mortgage and real estate taxes, they are currently spending more than double this amount on other living expenses so they will be in a for a dramatic downward lifestyle adjustment at retirement if something doesn’t change,’’ Novick says.

To get close to their current standard of living, they need to save $50,000 per year for the next 10 years, and that’s a huge goal which may be farfetched.

Not only did they purchase a house they couldn’t afford and take out too large of a mortgage, the rest of their budget shows the poor state of their financial situation, Novick says. The couple borrowed further to purchase several cars and are spending more than $1,000 per month on clothes, toiletries and other department store-type purchases, which has led to some credit card debt. While it may sound extreme, Novick says the couple might be good candidates for
Debtors Anonymous (**debtorsanonymous.org**), which is geared for spenders as well as debtors.

Novick says once Morris and Sheila address their debt with a smaller mortgage, no car loans and no ongoing credit card balances, they need to increase savings via their employer retirement plans. These plans will allow them to take advantage of pre-tax contributions, tax-free growth and a systematic investment plan.

Because they are far behind in retirement planning, helping their high school senior with college expenses would make matters worse. At best, Novick says, they can contribute a small amount towards college costs. Unless their child receives a significant aid package, they should probably limit the college search to less expensive schools. He recommends Morris and Sheila plan for student loans and other financial aid, which they can research at **FinAid.org**.

While cutting back on spending is essential, Novick says this couple is underinsured. Term insurance is relatively inexpensive and can be an income replacement tool.

‘‘At their age, a good rule of thumb is for coverage to equal to five times salary,’’ Novick says, noting they can select term policies that coincide with their retirement dates, or approximately 10 years out.

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