

Couple would reap more from a delayed retirement

By [Karin Price Mueller](#)

Max and Elizabeth see their future finally within their grasp. Two of their children are finished with college and living on their own, and the couple are close to setting their third child free of the nest.

"Our goal is retirement," says Max, 55. "We have \$120,000 already set aside for college education for our youngest, with a cost of approximately \$22,000 a year plus incidentals." Now that they're financially over that big hump, the couple, whose names have been changed, want to see when they can stop working for good.

So far, they've set aside \$450,798 in Max's 401(k) plan, \$62,521 in IRAs, \$78,470 in annuities, \$27,526 in a brokerage account, \$200,072 in mutual funds, \$35,000 in bonds, \$216,078 in money markets, \$35,537 in savings and \$13,518 in checking -- plus the aforementioned college savings.

Max will also be eligible for a pension worth either a lump sum of \$425,000 or \$45,000 a year from age 56 through age 62, then the amount goes down to \$26,000 a year.

The Star-Ledger asked Andrew Novick, a certified financial planner with Condor Capital in Martinsville, to help Max and Elizabeth look beyond their parenting years and into the future.

"They've done a nice job with their financial planning," Novick says. "As long as they stay on track, it certainly seems like they are in good shape for retirement."

Novick prepared some projections to illustrate some of their options.

The first scenario assumed Max retires at age 62 and continues to save \$18,000 a year until retirement. It assumes that he take the \$450,000 lump sum pension (which Novick typically recommends, as it preserves the funds in the event of the pensioner's early death) and a 6 percent rate of return on investments with 3 percent inflation. It also assumes \$21,000 of Social Security for Max and \$10,500 for Elizabeth at age 62.

Novick says under this scenario, their savings, pension and Social Security can provide a maximum gross annual income of \$113,358 in today's dollars during retirement up to age 100. If Max wanted to retire next year at age 56, under the same assumptions, the couple could have a maximum gross annual income of \$87,332.

"This is a 23 percent reduction from Scenario No. 1 and can be attributed to less years of savings, more years of portfolio withdrawals and fewer years for the pension cash balance to grow," Novick says. "After factoring in some taxes, there will not be much margin for error in their budget."

Additionally, Novick says if Max retired immediately, they'd need to tap the portfolio hard for a few years until they become eligible for Social Security benefits. He recommends they avoid taking early distributions from tax-deferred accounts to avoid the 10 percent penalty.

"While it appears they will have enough in their taxable accounts to get them through this period, careful planning to give them flexibility to withdraw from their tax-deferred accounts will probably be necessary if they retire early," he says.

Novick typically recommends rolling 401(k)s over to IRAs for expanded investment options. But for Max, he could make penalty-free withdrawals from the 401(k) before 59½ as long as he retires after age 55.

That means Max probably shouldn't roll over his 401(k) until he is 59½, to preserve the additional flexibility concerning distributions.

"Overall, I'm sure that it is nice to know that they can retire at age 56, but we recommend working a little longer," Novick says.

Novick looked at Max's and Elizabeth's investments, and found they're invested in high-quality, low-cost funds -- something Novick recommends for most investors.

The couple also call themselves "conservative investors," and Novick says their current allocation of 35 percent equities and 65 percent fixed income is appropriate for their investor profile.

But they could do better with the specifics. Nearly 30 percent of their portfolio is invested in a single government securities mutual fund, and they should not keep such a large stake in any one fund.

Also, they've got a lot of cash on their hands -- equaling another 30 percent of their holdings. They should take any cash over the 3 to 6 months worth of expenses they should keep for emergencies and invest the rest in higher yielding fixed income investments.

"We generally suggest staying fully invested and not trying to time the market or keep high cash balances," Novick says. "While cash offers virtually no volatility, it also provides relatively low returns."

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